Nation's Business

The Small Business Adviser

Small Companies Win Tax Benefits

More Choices In '98 Trucks

Phone Options That Can Boost Sales

The Heat Is On

Published by
U.S. Chamber of Commerce
OCTOBER 1997 - $2.50

Small firms are under increasing pressure to develop new products faster. Here's how some are doing it—and how you can, too.

New this season!

THE FOUR-LEGGED GIANT #2178

(A) One of the original trees in the collection, this tree sculpture is created from four separate sycamores, each equal in thickness and height. Using a secret technique, the trees were carefully grafted together more than 30 years ago to form a pergola-like living structure.

THE FOUR-RINGED TREE #7329

(B) Several decades ago, sections of this tree were grafted back onto itself to produce multiple loops. Despite their age, the loops have retained good strength and symmetry while the tree continues to grow.

THE COMPOUND SQUARE #6219

(D) One of the more striking shapes in the collection, this form is created from, appropriately, a boxwood elder. Elders and sycamores are particular favorites for this type of work, being supple enough to tolerate extreme variations in growth. This single tree stands approximately 25 feet tall.

THE ARCHWAY TREE #2836

(C) A simple yet intriguing design created from two grafted sycamores. Careful pruning helps achieve a form that is perfect in both design and balance. This tree now serves as a dramatic entrance point to this scenic walkway.

10 | Spring/Summer, 1997

Nation's Business

Published by
U.S. Chamber of Commerce
Washington, D.C.

PHOTO: ©ROBERT HOLMGREN

The race to stay ahead *requires small firms to search constantly for ways to improve their products and services. Employees at Specialized Bicycles regularly test their firm's mountain bikes and related gear on nearby northern California terrain. Cover Story, Page 14.*

PHOTO: T. MICHAEL KEZA

The new tax law *makes capital more affordable for computer-services provider Michele Dyson. Taxes, Page 24.*

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77 On Postal Costs

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VOL. 85, NO. 10

Editor's Note

PHOTO: ©RICHARD HOWARD

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On the cover: Using a converted hearse bearing their company's motto, employees of Specialized Bicycles transport mountain bikes, helmets, and other products to the hills of northern California for real-world testing.

Cover Design: Hans A. Baum
Cover Photo: ©Robert Holmgren

Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062-2000. Tel. (202) 463-5650 (editorial). Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 692-2215. Subscription prices (United States and possessions): one year, $22; two years, $35; three years, $46. For Canadian and other foreign subscriptions, add $20 per year. Periodicals postage paid at Washington, D.C., and additional mailing offices. Canadian GST Registration # R131556169. **POSTMASTER**: Send address changes to ***Nation's Business***, 4940 Nicholson Court, Kensington, Md. 20895. **To inquire about your subscription or to make a change of address, please call 1-800-638-6582, or in Maryland, 1-800-352-1450. Photocopy Permission**: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, Mass. 01923, to photocopy any article herein for a flat fee of $1.50 per copy of each article. Send payment to the CCC. Copying without express permission of ***Nation's Business*** is prohibited. Address requests for reprints to ***Nation's Business*** Reprints, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call 1-800-692-4000.

Printed in the U.S.A.

Keeping Your Company Relevant

PHOTO: T. MICHAEL KEZA

One of the shortest routes to oblivion in business is to ignore the market. A firm that does so becomes irrelevant quickly, and before long it's struggling to survive.

In reporting our cover story, "The Heat Is On," Associate Editor Roberta Maynard (in the photo at right) examined the rising pressure on companies to stay relevant and looked at how some are doing it. One of the best examples is Mike Sinyard, whose bicycle company's motto, "Innovate or Die," is featured on the cover.

His firm's strategy for success in a highly competitive industry is compelling. Don't miss his story and the rest of our cover article, beginning on Page 14. It includes advice on how you, too, might ensure your company's relevance in a fast-changing world.

Trucks, whether they're sport-utility vehicles, pickups, or heavier models, are coming off the assembly line with important new benefits for owners and drivers. For a look at the 1998 models—such as the Ford Ranger XLT at left—turn to our special report beginning on Page 53.

To get up to speed on the new tax changes that affect small companies, see the article by Senior Associate Editor Joan Pryde beginning on Page 24. We'll be providing many more details in the months to come. So stay tuned.

Mary Y. McElveen

Mary Y. McElveen
Editor

Nation'sBusiness

Letters

Electricity Suppliers May Be Eager To Please

I read with interest "The Big Switch," your September cover story about deregulation of the electric-power industry. I wanted to share the experience of my company, a small oil and gas producer with operations in Texas.

Our monthly electricity usage, supplied by the local cooperative, is 230,000 kilowatt-hours. More than a year ago we contacted the co-op and requested a lower rate. We were prepared to schedule our peak usage to comply with any demand-management program the co-op had to offer.

To our surprise and pleasure, the co-op was eager to please. We worked out a new rate schedule that saves us $1,750 per month—without having to schedule our usage or install new equipment. The recognition that my company would have a choice in the future encouraged the co-op to make concessions now.

Most utilities and co-ops have demand-management programs and other options through which they offer lower electricity costs to businesses. I would encourage the owner of any business to simply call his or her supplier and ask about lower rates, even if deregulation has not yet reached his or her state.

The supplier, knowing that deregulation will arrive soon, may take the opportunity to get on your good side.

Bill Kenworthy, President
Kenworthy Operating Co.
Tulsa, Okla.

Unfair Competition?

"The Big Switch" was interesting and informative. However, it missed one major point: the havoc that electricity deregulation is going to create for many small businesses.

For many years, utilities have been in a monopolistic position that allowed them to create and build a wealth of assets. Deregulation is going to let the best-managed utilities use their strength to compete in a market that will enable many businesses, large and small, to enjoy reduced utility costs. This is great—but it is also where deregulation should end.

Utilities are now being allowed to use the cash flow from their assets to compete in any business and in any market they want. They can do this with the funds that their customers—who now may be their competitors—had to pay them for years under the old system.

There are laws that say that cross-subsidization is illegal, but most politicians in this country do not seem to understand simple economics. All income is generated from some form of assets. The utility industry was given monopolies to build assets, and now it is being handed the opportunity to make unfair use of those assets and the income generated from them.

Mark D. Swepston
President
Atlas Butler Heating and Cooling
Columbus, Ohio

Poll May Have Lacked Answers

I think you needed a third category of answer—"None of the above"—for your Where I Stand poll in the August issue, "On Clinton And Congress."

You know as well as I do that this budget won't balance, and neither will the ones beyond 2002. Spending needs to be cut, and no one in the present leadership is going to do that.

They all need to be replaced by true small-government, small-business conservatives. And *Nation's Business* needs to stop supporting their inadequate efforts at reform and to hold their feet to the fire.

Kay Brooks, Vice President
Brooks Communication, Inc.
Albuquerque, N.M.

Mission Improbable?

You asked some interesting questions in the Where I Stand poll in August.

But what makes you think that either Congress or the president is really

interested in accomplishing the objectives you mentioned?
Louis Peller
Cincinnati

[Editor's Note: The results of the August Where I Stand poll are on Page 76.]

Taking Some Of The Bite Out Of The Estate Tax

"The Estate-Tax Toll On Small Firms" [August] was most timely, as Congress pondered the size of the bite this tax will take from us in the future.

While the appropriateness of an estate tax is as much a subject for philosophy as for revenue policy, the tax remains a reality. Because the tax can deal a devastating blow to a closely held business, estate-tax planning should be a prime issue for business owners. Your article and the real-life examples it contained make clear that it is imperative to begin planning early.

One of the few bright spots in this area is that there are tools and techniques available for owners to transfer ownership without having to transfer control (and most of the earnings along with it).

Finally, business owners should consider estate planning to be an investment in major cost reduction—and the savings generally far outweigh the investment.

Perhaps, in the future, the need for such planning will be significantly reduced and business owners and their advisers will be free to concentrate on more-productive activities—such as growing their businesses.
Paul H. Kositzka, CPA
Kositzka, Wicks and Co.
Alexandria, Va.

Reasons To Be Wary Of An Ergonomics Rule

"OSHA Is Moving On Ergonomics Rule" [August] presented compelling reasons for the business community's concerns about a premature ergonomics rule.

The Alliance of American Insurers, whose members include some of the nation's largest workers' compensation insurers, also feels that there are good reasons for all of the parties that are truly interested in protecting workers to discourage the Occupational Safety and Health Administration from developing an ergonomics rule at a time when there are more-effective approaches to addressing repetitive-trauma injuries that may arise from or be aggravated in the workplace.

Workplace safety rules protect workers in two ways. First, they help employers who want to protect their employees to understand what steps they can take to create a safe workplace. For decades, employers—often with assistance from their insurers—have implemented ergonomics programs, while public and private research institutions have worked to determine how ergonomics programs can help prevent musculoskeletal disorders.

OSHA can and should play a role in accomplishing this; however, it should help facilitate the process by encouraging existing voluntary outreach and cooperative public- and private-sector programs, not by promulgating an ergonomics rule.

Second, workplace safety rules provide a means to encourage recalcitrant employers to take needed safety actions. To accomplish this, there must be a high level of assurance that the mandated action will lower the risk of injury; that it will achieve this at a cost that assures the same or better results than alternative methods; and that it will be fair to employers and employees. Regulations that fail these tests damage OSHA's credibility with employers and its potential to improve workplace safety and health.

Musculoskeletal disorders are an important problem that should be addressed. However, given our current knowledge of ergonomics, a rule mandating strict compliance is not the best way to find a solution.
Keith D. Lessner
Vice President—Safety & Environmental
Alliance of American Insurers
Schaumburg, Ill.

You can communicate with Nation's Business *via:*
Mail: Letters to the Editor,
Nation's Business
1615 H Street, N.W.
Washington, D.C. 20062-2000
Fax: (202) 887-3437
CompuServe: 76436,1735;
Internet: 76436.1735 @ compuserve.com

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ENTREPRENEUR'S NOTEBOOK

Globe-trotting From Home Base

By Lynn Cooper

No one can be everywhere all of the time. And no one knows that better than a business owner. Yet everywhere one turns these days, people are talking about the globalization of the marketplace.

Ten years ago, my company, BFW Inc. in Lexington, Ky., started exporting our fiber-optic lights and head-gear-mounted video cameras, which are used for medical exams and surgery. Exporting was a means of increasing sales, but with just myself and one employee to handle marketing and distribution, it was clear that we would not be able to go global without establishing a network of distributors.

Working through international-trade shows in the U.S., the Kentucky World Trade Center in Lexington, and the U.S. Small Business Administration, I developed a network of 30 distributors in 24 countries. Today, about 35 percent of our gross sales comes from our international distributors.

PHOTO: ©PAT MCDONOGH

Through exporting, *Lynn Cooper's company is spreading light around the world.*

There have been bumps in the road, but the more you "travel," the more you learn. Here are some lessons we learned:

Look for knowledge in a distributor, not necessarily location. You want a distributor who is working in your product field and who understands how to do business in the region or country you are targeting. For example, we recently completed a sale to a new hospital in Moscow after four years of negotiations. The key was that our U.S.-based distributor knew the ins and outs of dealing with the Russian government, an area in which patience is paramount.

Set performance standards. Setting monthly or annual quotas lets distributors know what is expected of them and gives you a measuring stick to assess their performance in selling your products.

Be sure, however, that your picture of the potential market is realistic. Before setting quotas, I try to determine how many physicians are practicing in the medical fields we target. This enables me to size up the potential market and to set appropriate sales goals.

Knowledge of the products equals sales. Distributors can't sell what they can't explain. Make sure that your distributors receive the training and education needed to represent your products or services knowledgeably.

Let your distributors know you're there. It's important to stay in constant communication with your distributors. The easiest and cheapest way may be to send faxes letting them know you're keeping up on the status of their orders. Knowing that their performance is being tracked may keep you foremost in their minds.

Easy isn't always better. Having no distributor at all is better than having a distributor who isn't performing, even though you may get some false comfort from telling yourself "I have somebody there." Also, don't lock yourself in by granting exclusivity for a country or region too quickly.

Commitments that count. A distributor who isn't willing to purchase equipment for demonstrations, even at a reduced price, isn't likely to be a good representative of your products. Not only will the distributor not have your product available to show potential customers, but he or she will not have made a personal investment in selling your product.

On the other hand, distributors need to know that you'll be responsive to their needs. For instance, you should make a commitment to visit their location if your presence could boost sales significantly.

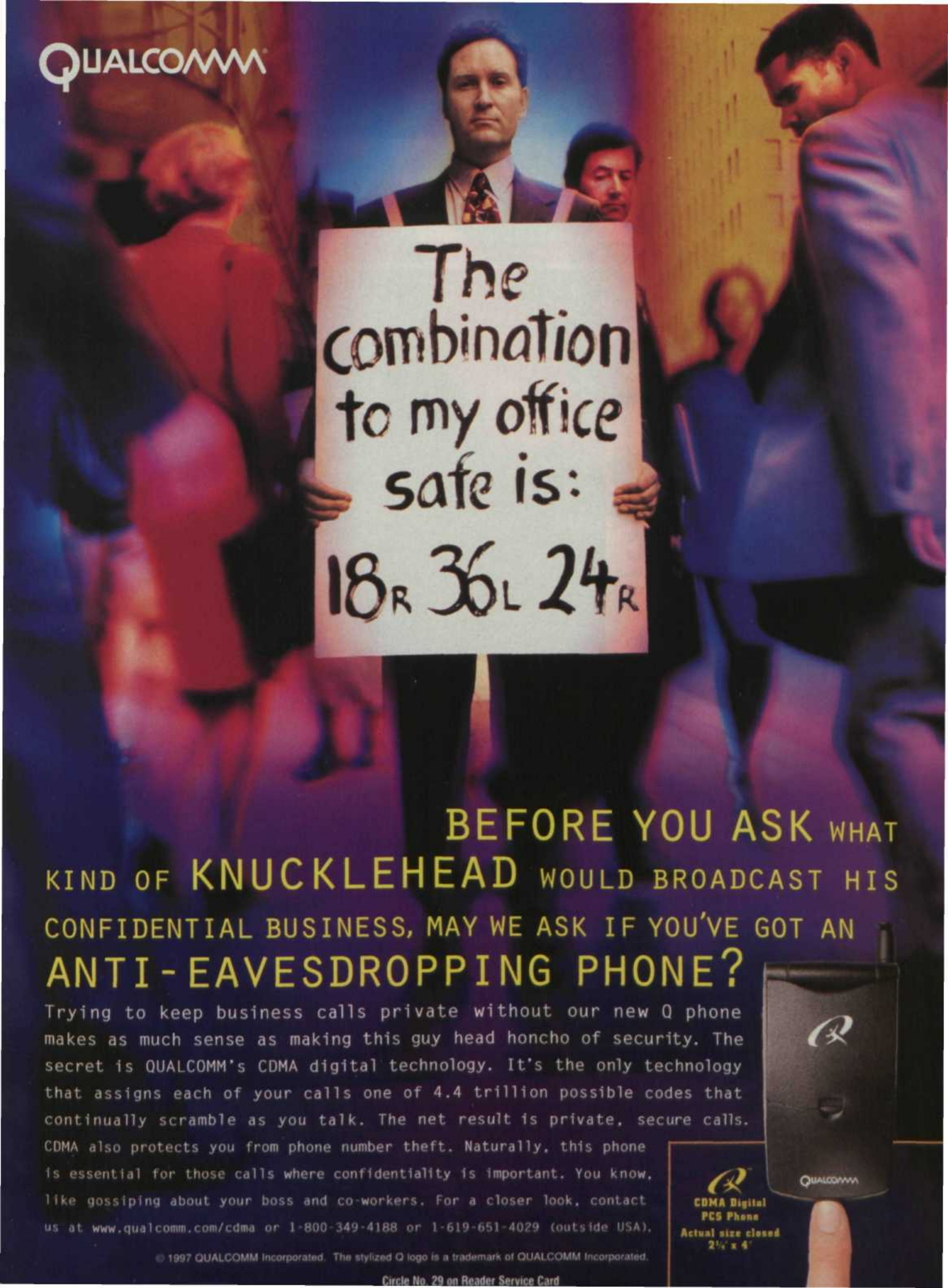
Get an agent. Developing and maintaining a solid distribution network is time-consuming, especially if you're looking to establish a large number of distributors. Having an agent who will represent you to potential distributors can help. Usually, agents receive a percentage of the sales that result from the relationships they helped establish.

Ultimately, exporting is like any away-from-home adventure: Knowing where you want to go and planning accordingly can make all the difference. NB

Lynn Cooper is president of BFW Inc. in Lexington, Ky. She prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

An international exporter can't be omnipresent, but having a network of distributors is the next best thing.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Dateline: Washington

Business news in brief from the nation's capital.

WELFARE REFORM

SBA To Help Small Firms Hire Welfare Recipients

The U.S. Small Business Administration has pledged to use its nationwide network of business advisers and information centers to help small-business owners tap the pool of workers available as a result of the nation's 1996 welfare-reform law.

The law requires most able-bodied adults to find work within two years after they begin receiving welfare benefits, and it limits lifetime benefits to five years.

SBA Administrator Aida Alvarez said the agency will take a leading role in the Clinton administration's welfare-to-work initiative, which is designed to encourage businesses to hire welfare recipients. Alvarez spoke at a recent conference on welfare-to-work at the U.S. Chamber of Commerce in Washington.

Alvarez said that the agency will use its more than 100 regional and district offices and its 950 small-business-development centers nationwide to inform small companies that people on public assistance are ready and willing to work.

The SBA will conduct regional conferences with representatives of small businesses, state and local governments, and nonprofit organizations to develop strategies for identifying and employing qualified welfare recipients, Alvarez said. Owners of small firms interested in participating in the conferences should contact their local SBA office.

The agency also plans to post information about the welfare-to-work initiative—including information on how small businesses can locate welfare recipients who are looking for jobs—on its Internet home page at *www.sba.gov*.

There is plenty of interest among businesses in hiring people off welfare, Alvarez said. In the past few months alone, she noted, the SBA has received through its small-business-development centers commitments from 640 small firms to hire at least one welfare recipient.

A recent survey of 444 companies conducted by accounting and consulting firm Coopers & Lybrand found that more than 60 percent of the firms were interested in helping welfare recipients join the work force, while 26 percent had already hired at least one former welfare recipient.

Alvarez also said that she would like to see some welfare recipients become entrepreneurs, and she cited as sources of assistance the SBA's microloan and other programs.

—David Warner

PHOTO: T. MICHAEL KEZA

During a recent conference *at the U.S. Chamber of Commerce, Aida Alvarez of the U.S. Small Business Administration said her agency will take a leading role in encouraging businesses to hire welfare recipients.*

LEGISLATION

Corrections Day Produces A Victory

Corrections Day, begun by House Republicans in 1995 to fix laws and regulations that have had unintended consequences, is back in this year's Congress—with a victory.

President Clinton recently signed into law a bill that blocks the termination of certain kinds of nurse-training programs for reasons unrelated to their quality, such as operational deficiencies at the nursing homes where the training is delivered, even when there was no other training program nearby. The measure was sponsored by Rep. Robert Ehrlich, R-Md., and Sen. Byron Dorgan, D-N.D. It passed the House and Senate on voice votes.

Ehrlich said that the previous federal law not only allowed the training programs to be shut down for reasons unrelated to their quality but also prohibited resumption of the programs for two years—even if the deficiencies were corrected.

Two other Corrections Day bills have passed the House this year and are awaiting action by the Senate.

Corrections Day is a time set aside regularly for expedited consideration of bills with broad, bipartisan support that are aimed at correcting unworkable laws or regulations. Corrections bills do not attempt to overhaul major federal programs, to attack agencies, or to change the basic tenets of public statutes.

During the 1995-96 Congress, 20 Corrections Day bills passed the House and Senate and were signed into law by Clinton. The president vetoed only one such measure.

—James Worsham

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TAXES

Lawmakers Propose IRS Restructuring

Two influential lawmakers have introduced legislation that would reorganize the Internal Revenue Service and give the private sector a strong role in its future management.

Rep. Rob Portman, R-Ohio, and Sen. J. Robert Kerrey, D-Neb., who co-chaired the ad-hoc National Commission on Restructuring the IRS, introduced their identical bills July 30. The measures stem from recommendations by the commission, which was composed of members of Congress, former IRS commissioners, and representatives from the private sector.

The panel spent a year assessing the agency's management and customer-service problems and proposing solutions for them.

The provision in the legislation receiving initial attention would establish an independent board of directors to manage the IRS, with seven of the board's nine members drawn from the private sector. The Treasury Department, which now oversees the IRS, has expressed concern about such an approach.

Other provisions in the bill could make dealing with the IRS simpler for small businesses. For example, the legislation would make it easier to pay back taxes through installment payments.

The IRS also would have to devise a plan to encourage more taxpayers to file their returns electronically. (See the chart.)

Aside from changes that would affect the IRS, the legislation would provide ways to discourage legislators from making overly complicated changes in tax laws—a problem that, according to the commission, contributes to the administrative difficulties the IRS is experiencing.

The bill would require Congress' Joint Committee on Taxation to gauge the complexity of proposed tax changes as they are being considered.

The measure also would encourage the IRS to offer its point of view on tax proposals during the development of legislation.

Portman and Kerrey are urging their colleagues to consider the bill as soon as possible, and some key members of Congress are moving to accommodate them. For example, House Ways and Means Committee Chairman Bill Archer, R-Texas, says that IRS restructuring is among his top priorities and that he will hold hearings on the bill this fall.

—Joan Pryde

Wiring The IRS

The National Commission on Restructuring the IRS, as part of its recommendations for revamping the Internal Revenue Service, came up with a plan for increasing the number of individual income-tax returns filed electronically. Below are some of the panel's recommendations and suggested implementation deadlines:

Recommendation	'98	'99	'00	'01	'02	'03	'04
Eliminate the requirement that a taxpayer send in Form 8453, showing his or her signature on paper, when the taxpayer files electronically.	▲						
Eliminate the requirement that a paper W-2 form be sent to the IRS when a return is filed electronically.	▲						
Allow taxpayers to make "paperless" payments (via credit card, for example) to the IRS.		▲					
Make the IRS capable of receiving all income-tax returns electronically.			▲				
Develop systems so that taxpayers can file their returns to the IRS directly from their home computers.				▲	▲	▲	
Require paid tax practitioners to use electronic filing for all returns they prepare.							▲

Suggested Year Of Implementation

SOURCE: REPORT OF THE NATIONAL COMMISSION ON RESTRUCTURING THE IRS

ENVIRONMENT

Global-Warming Debate Heats Up

President Clinton recently began lobbying on behalf of a controversial treaty on global climate change that even some members of his administration forecast would harm the U.S. economy. The pact is expected to be finalized and signed by the leaders of 160 nations—including Clinton—in December in Kyoto, Japan.

Clinton has endorsed the scientific view that mankind is causing global warming, and he has scheduled a White House conference on the subject for October and a series of regional panels thereafter.

The final pact will face strong opposition in the Senate, where ratification is required. In late July, the Senate passed 95-0 a resolution that urges the president to forgo signing any climate treaty that would hurt the economy.

The treaty stems from a 1992 international convention on climate change. The convention called on developed nations to reduce voluntarily their emissions of so-called greenhouse gases—mostly carbon dioxide that results from burning fossil fuels such as oil, coal, and natural gas—to pre-1990 levels by 2000.

At a climate conference in 1995, the Clinton administration proposed "a legally binding target" on the emissions in the belief that voluntary restrictions were ineffective. The Kyoto treaty would lock those goals into international law.

Proponents of the treaty say it is needed to prevent man-made pollution from warming the Earth's climate, which would result in a host of ecological disasters. Critics say scientific evidence does not justify those conclusions, and they dispute the value of a treaty that would allow poor nations to increase their pollution but would saddle businesses in developed countries with costly new restrictions.

In practical terms, implementing a global-warming treaty is expected to result in a "carbon tax" that would increase the cost and discourage the use of energy. Even studies by the administration have concluded that curbing emissions under the treaty would result in sharp increases in the prices of gasoline, electricity, and natural gas and would force "significant reductions in output and employment" in the U.S. chemical, metal, paper, and petroleum industries.

Because of the potential threat to jobs and economic growth, labor unions have joined business groups in opposing the global-warming treaty. The major business group involved in the scientific and policy debate is the Global Climate Coalition, established in 1989 and based in Washington. The coalition includes the U.S. Chamber of Commerce and various trade associations and private companies.

—Stephen Blakely


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Managing Your Small Business

Getting in sync with company values; discovering the magic; establishing an overseas base.

By Roberta Maynard

COMPANY VALUES

Staying In Step With The Firm's Mission

PHOTO: ©PAT CORDELL

"The Values Game" *at Transitions For Health, Inc., can be community-minded while it promotes personal-achievement goals for staff members. Among them, from left: Dawn Wilbur, special markets; Ellen Markham, customer service; Laura Verboort, catalog-marketing manager; Brad Buchanan, regulatory-affairs manager; and Sharon A. MacFarland, owner and CEO.*

Transitions For Health, Inc., a Portland, Ore., company that sells health products for women, is experimenting with a novel—and apparently successful—approach to getting employees in sync with the company's values.

Two years ago, based on recommendations by an employee task force, the firm adopted a dozen core values, including employee involvement, learning and personal renewal, environmental protection, and diversity.

"Our mission is to bring positive changes to the lives of women," and adopting and constantly reinforcing company values reflects that, explains Laura Verboort, catalog-marketing manager for the 20-year-old firm.

To help its 30 workers stay in touch with these values, the company created what it calls "The Values Game." The rules are simple: Managers choose one of the values, and each employee sets a three-month personal goal tied to it.

For example, when the value was "health-enhancing work environment," which involves promoting the physical, mental, and psychological health of workers, one employee pledged to read three nonfiction books. Another set a goal of running three miles three times a week. Others committed to taking meditation classes.

When the chosen value was community service, workers strove to spend at least four hours per quarter in volunteer activities such as building subsidized housing for the poor, reading to kindergartners, and staffing polling sites on election day.

When the game ends, employees gather around a chart on the lunch-room wall where employee progress has been recorded. Both times the game has been played, at least 80 percent of the firm's workers achieved their goals. For crossing the 80 percent threshold, everyone was given a gift certificate to a bookstore or a health-food store.

There have been many benefits, according to Verboort, who helps coordinate the program. "We're improving ourselves. When we're healthier and more energetic, productivity goes up." The games create a strong feeling of individual accomplishment and build team spirit, she says. "To be walking the talk is really quite powerful." ■

PUBLICITY

Finding Your Company's Magic

When seeking publicity for a small firm, start by examining the business objectively, says Jeanne Bluffstone, president of Jeanne Bluffstone Public Relations in Cleveland. Look for what she calls the business's magic—that spark that says, "We have a story to tell."

For companies with that sizzle, Bluffstone says, the publicity potential is "nearly limitless." News editors look for fresh approaches to everyday problems, stories about big successes after great failures, and, in particular, the ways in which businesses are taking advantage of developing trends, she says.

Bluffstone says "magical companies" share characteristics such as infectious enthusiasm among employees and a commitment to the owner's vision that draws people together and pushes them toward a shared goal. The magic may be an original approach to employee relations, to customer service, or to the uses of technology. Often, the magic pervades the operation.

"The magic of a business is an extraordinary and valuable commodity," says Bluffstone. "It transcends normal day-to-day business activities and even surpasses profits—since it is the origin of profits."

To assess your magic, take an outsider's view of your company. Talk with customers and employees. When you find what makes your company special, she says, share it willingly. ■

INTERNATIONAL TRADE

Overseas Expansion: An Opening Question

Is it feasible for a small company to operate an office overseas? Ed McGunn, chairman of McGunn Safe Co. in Chicago, is finding out. Partly because he could not find distributors in Europe for his type of products, he decided about 18 months ago to open an office in Britain that would eventually handle the firm's sales throughout the European Union.

His company, with $8 million in revenues and 30 employees, manufactures safes with computerized controls, cash-dispensing capability, and other high-tech features.

McGunn, who created a separate corporation for his foray across the Atlantic, spent $150,000 to set up an office in the southern England town of Waterlooville, near Southampton. The costs included legal fees, equipment, and a salary for the British representative he hired.

Based on his experiences so far, he offers these insights and tips:

■ The mechanics of setting up an overseas business will take longer than you expect. It can require three weeks to establish a bank account, for example.

■ Consider establishing a separate corporation rather than just opening a European office. Some Europeans prefer to do business with European companies rather than with branch offices of foreign firms.

PHOTO: DAVID SUTTON

An office in England *gives Chicago-based safe manufacturer Ed McGunn access to markets throughout Europe.*

■ You may have to meet safety and health regulations that are different from—and perhaps more stringent than—comparable U.S. rules.

■ Expect selling to take awhile. The decision-making process in Europe is longer and more formal than in the United States, and longevity in the marketplace counts, says McGunn. He is encouraged that potential customers are more receptive now that he has been in business there for nearly two years.

■ Doing business is more expensive abroad than in the United States; McGunn cites fuel costs as an example. On the other hand, foreign customers are willing to pay a premium for American technology, he says, noting that in his industry, at least, lack of competition overseas means he can allow enough margin to cover the extra overhead.

It's too soon to tell whether the move will pay off for the company, which has used distributors to sell in Mexico and the Philippines. So far, McGunn's experience supports the conventional wisdom that overseas operation is too costly and time-consuming to be worthwhile for a small firm.

Nonetheless, he hasn't decided to abandon the notion. Overwhelming enthusiasm at recent European trade shows points to a lucrative market for McGunn's safes, notably in gasoline stations, convenience stores, and similar retail outlets. ■

NB TIPS

SCORE Gets Wired

The free and confidential business counseling offered by the Service Corps of Retired Executives (SCORE) is now available on the Internet. Small firms can pose questions via electronic mail to counselors who have specific industry or business experience. SCORE, a nonprofit association based in Washington, D.C., serves as a resource partner of the Small Business Administration and has 389 chapters nationwide. The World Wide Web site allows visitors to identify counselors with the desired expertise and to locate the closest SCORE office. Visit the Web site at *www.score.org*, or call SCORE at 1-800-634-0245.

High-Voltage Seminar

A seminar on improving business operations and preparing for the restructuring of the electric-utility industry is being sponsored jointly by Select Energy Inc., a retail energy-services subsidiary of Northeast Utilities, both of Berlin, Conn., and the U.S. Chamber Of Commerce.

The seminar, produced by the Chamber's Quality Learning Services (QLS) Department, will be broadcast by satellite Dec. 1 from the business federation's television studios in Washington, D.C.

Currently, the seminar will be available for viewing in California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and Vermont.

For information on setting up a local broadcast downlink site or on attending the program, call QLS at 1-800-835-4730.

For more information on electricity deregulation, see "The Big Switch," the cover story in the September *Nation's Business*.

A Look At The Future

A nationwide series of conferences and expositions on technologies designed to help small firms remain competitive will be held this year and in 1998. The one-day events, co-sponsored by Microsoft Corp. and the U.S. Chamber, will feature seminars on current and emerging technology issues and will showcase small-business technology.

The first conference/expo is scheduled for Oct. 28 in Washington, D.C. Dates and locations for other events this year are: Nov. 6, New York City; Nov. 25, Chicago; and Dec. 10, Los Angeles. For more information, call the U.S. Chamber's Small Business Institute at 1-800-835-4730.

A Super Contest

Want a chance to appear on a national TV commercial during the 1998 Super Bowl?

Mail Boxes Etc., a franchise company based in San Diego, will choose a small business based on its description—in no more than 100 words—of why it best represents the entrepreneurial spirit of American small business. The winner will be highlighted in a commercial during January's Super Bowl and will receive $10,000.

The contest is open to businesses with 20 or fewer employees. Entry forms are available at participating Mail Boxes Etc. stores and at the company's World Wide Web site, *www.mbe.com*. For further information, call 1-800-789-4623 or visit the Web site. NB

COVER STORY

The Heat Is On

By Roberta Maynard

Staying competitive *means constant revision, says Specialized Bicycles owner Mike Sinyard, center, with Steve Sasaki of the company's design team.*

For 16 years, Mike Sinyard has been a winning participant in the increasingly grueling race to design innovative products and bring them to market faster than the competition.

The owner of Specialized Bicycles in Morgan Hill, Calif., Sinyard astounded and ultimately revolutionized his industry with a trade-show display in 1981. His company, seven years old at the time, introduced a new category of bicycle to the mass market—the mountain bike, with its trademark fat tires, winglike handlebars, and multiple gears.

Within a year, however, similar bikes were being produced by several other companies, including some that had been in the business longer and whose brand names were better known among bicycling enthusiasts. Sinyard found himself working at a feverish pace to maintain his company's leadership position.

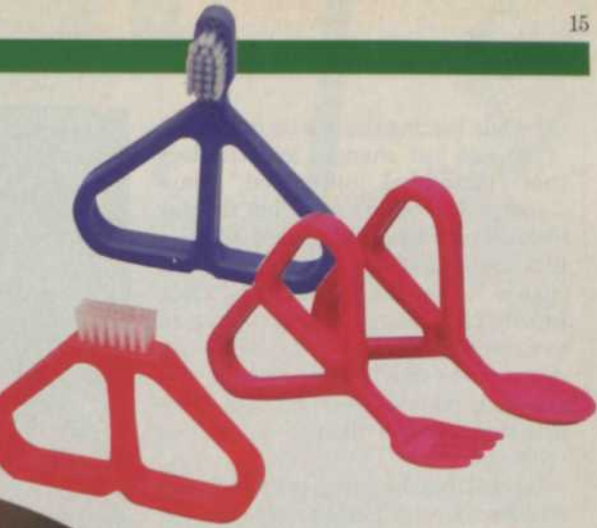
The competition has intensified through the years as more firms have sought to cash in on consumers' growing preference for mountain bikes over traditional road bicycles. To remain competitive, Sinyard says, he must revise each of the company's 37 bike models annually—from component upgrades to complete structural redesigns.

Similar innovation is required in the bike-related products marketed under the Specialized label. More than half of the company's helmet models, for example, are replaced annually, and the rest undergo major redesigns.

"At trade shows, the first thing customers say is, 'What's new?' Every year you have to raise the ante," Sinyard says. "If you were not to do it, you'd be left in the dust."

"Innovate or Die," the company's motto, reflects the stark choice confronting growing numbers of entrepreneurs—even those in industries far removed from the computer business and other enterprises typically associated with fast-track development and short product life cycles.

Small firms are under increasing pressure to develop better products faster just to remain competitive; here are steps that companies can follow to quicken the pace.



Competitive Climate

"There's no doubt" that the product-development environment is more challenging now than it was 15, 10, or even five years ago, says Milton D. Rosenau, a Houston-based consultant who is president of the Product Development & Management Association, a Chicago-based trade group for product-development specialists.

The imperative of bringing new products to market at ever-shorter intervals is driven by multiple factors, all interwoven with increased competition occurring in many industries.

"Globalization, communication, and rapid changes in technology are all factors in the increasingly competitive climate," says Jack Thorne, a professor of entrepreneurship in the graduate business school at Carnegie Mellon University in Pittsburgh.

Many companies have learned how to increase their product-development pace, he says, but for those that haven't, such progress has put them further behind. "Fifteen years ago, we were on the wrong end of the competitive spectrum," he says, but since then, many managers not only have increased their product-development efforts but also have learned to save time and money while doing so.

Product innovation has become such a focus in the global economy that the Council on Competitiveness, a nonpartisan, nonprofit group based in Washington, D.C., recently created an innovation index as a framework for benchmarking the capacity for innovation of the United States and 14 other nations.

The council plans to hold its first National Innovation Summit next year. The primary goal of the meeting will be to reach a consensus among business, university, and labor leaders on issues such as how to fund research and development, benchmark innovation, and identify the best practices in innovation.

The capacity for innovation will play a critical—and probably dominant—role in future competitiveness for companies and countries, says William Hambrecht, the council's chairman.

PHOTO: ©RALF-FINN HESTOFT—SABA

Machine-parts maker *Hy-Tek Manufacturing and its vice president, John Bastian, branched into consumer products with a large, lighted remote control.*

"Although U.S. leadership in science and technology is unquestioned today, complacency about the nation's long-term strength in innovation is dangerously misplaced," says Hambrecht. "Our greatest competitive challenges are likely to come not from knockoff producers overseas but from low-cost innovators." Developing countries, where such innovators are expected to proliferate, will be among the top challengers to the United States in coming years, Hambrecht adds.

Innovation Challenges

New communication capabilities also are increasing the pressure on companies to develop new products faster. The growing use of the Internet, for instance, is enabling customers and competitors to gain more knowledge faster about products on the market.

Competitors worldwide can start work on their own versions of a new product more quickly than ever, putting pressure on the original innovators to again come up with something new, says Craig Terrill, president of Kuczmarski & Associates, Inc., a Chicago management consulting firm.

Even more vulnerable than manufacturers to having their ideas copied are service providers, says Terrill. (See "A Fresh Spin On Services," on Page 20.) For example, when Internet directory service Yahoo partnered with other content providers to offer new travel-related information, he says, "you saw 14 other [services] quickly do the same thing. When that happens, it immediately becomes difficult to differentiate between the players."

Technological Advances

Other developments pushing companies to innovate are advances in design and manufacturing technologies. With each new technological development, the bar is raised, forcing all players in affected industries to scramble to keep up.

A recent example is a new printing technology developed at the Massachusetts Institute of Technology and licensed by a small, three-year-old company, Z Corp. in Somerville, Mass.

This three-dimensional printing system can create prototypes of virtually any type of product part up to 20 times faster and at a lower cost than current processes, according to the company's president, Marina Hatsopoulis, who studied engineering at MIT.

The new system allows designers to go through many more iterations of a product early in the development process, which results in a better product that costs significantly less to create, she says.

Such advances have made it possible for companies to add more features to a prod-

uct while holding the line on prices.

"It's not just changes in technology that must be understood," says Carnegie Mellon's Thorne, "but the way technology is used and applied and how that can affect an industry." It can change customer requirements, often rapidly, he explains. Thorne cites as an example the steel industry, which because of its recent but relatively fast evolution requires very different products and services than it did several years ago.

Beyond that, he adds, customers' preferences change. "Because of these factors, if a company wants growth and success, it just can't stand still."

One telling sign that entrepreneurs' efforts to increase innovation may have a positive impact on their bottom lines is the steady rise in the percentage of sales that come from new products compared with older ones, according to the Product Development & Management Association.

At the 200 U.S. companies surveyed by the organization last year, new products accounted for 28 percent of total sales in the previous five years, and that figure was expected to increase to 37 percent in the next five years. Similarly, new products were expected to account for 39 percent of total profits in the next five years, up from 25 percent in the previous five.

In the study, new products were defined as new applications, major product changes, and new-to-the-world products. Though a time frame was not specified, the study encompassed products introduced into the market in the previous five years, according to the association's Rosenau.

Robert G. Cooper, a professor of marketing and technology management at McMaster University in Hamilton, Ontario, notes that the percentage of sales coming from new products "has been increasing over the past few years—across all industries and sizes of businesses."

Now, Cooper says, it's not unusual for U.S. companies to have 50 percent of sales—and about 40 percent of profits—coming from products five years old or less.

Zipping To Market

Along with the need to be both innovative and prolific, companies are being pressed to explore ways to get products to market faster. "If you can reduce one product process from three months to two weeks," says Thorne, "it gives you a stronger competitive position. ... It's not just speed, it's responding to the market, taking into account the industry, product features, maintenance," and customer service.

With that in mind, companies have forayed into outsourcing, partnerships, and licensing, among other approaches, to get to market early—preferably first—and at a lower cost than before.

An innovative approach *to test-marketing helped Millie Thomas of RGT Enterprises develop her line of children's products that have triangular-shaped safety handles.*

For example, ZF Microsystems, Inc., a two-year-old company in Palo Alto, Calif., outsources the design, manufacturing, and even some sales and marketing of its computer products. Doing so, explains David L. Feldman, ZF's president, allows the company to concentrate on what it does best: developing market-driven product ideas.

Hiring such expertise may save a company money, he says, noting that of the four projects that ZF has outsourced, two came in below estimated cost. Even if outsourcing appears to cost more initially, Feldman says, the substantial time savings in getting new products to market might make that cost worth it.

In Wichita, Kan., 18 machine shops created a joint venture to develop proprietary products so they could get to market faster and more efficiently than any individual firm could have on its own. Taking the fastest route it could devise, the group licensed its first product, a vehicle-alignment system that small automobile-repair shops can buy for one-tenth the cost of the systems used in larger operations.

Apart from adopting strategies that involve outside expertise, a company may be able to reduce the time it takes to get to market by examining its own method of developing products. Along with taking advantage of available technology, one of the most important ways to save time is to do efficient, market-oriented product planning, according to product experts. Here are the key elements of that process:

Develop a product strategy.

Failure to decide which direction to take—and why—may be the biggest impediment to getting the right products to market quickly, according to product specialists.

"Set a goal for the next three to five years that [a certain percentage] of your business will come from products you don't have now," advises Cooper of McMaster University. "And then pick your battlefields—the markets and technologies you want to be in."

Creating a plan for the kinds of products the company will concentrate on, he says, provides a focal point—a framework in which to evaluate each new product idea, taking into account factors such as whether the product is compatible with existing operations and consistent with the company's image.

A strategy helps a firm plan for a mix of product types, a principle known as product-portfolio management. A portfolio may include derivative products, which involve incremental changes to existing products, as well as breakthrough products, which represent bold and typically innovative ideas.

The hope of greater reward is what drove a small, 14-year-old manufacturing company in Sugar Grove, Ill., to risk launching a radically different product about a year ago. Primarily a maker of custom machine parts for a variety of industries, Hy-Tek Manufacturing Co., Inc., introduced a consumer product.

It developed an extra-large remote control with lighted buttons for use with televisions and other electronic devices; it's designed for people who regularly lose track of their smaller, less-conspicuous remotes. In the product's first three months on the market, Hy-Tek took orders from retailers for 10,000 units.

Another benefit of a strategic plan is that it provides a check on new-product ideas that might be terrific but would send the company spinning off in the wrong direction—into a market in which it can't compete, for example.

Philip Himmelfarb, president of Philip Adam & Associates, a product-development consulting firm in Milwaukee, says a strategic plan can help address a different problem that many companies face: too many projects and too few products actu-

ally getting to market.

Himmelfarb tells of the chief executive of a $60 million-a-year company who called him for help because no new products were getting out, even though the company's engineers were overloaded with product-development work. When Himmelfarb discovered that the company was working on 87 projects, his first advice was to pick the 10 best and put the rest on hold.

It's a lesson that Specialized Bicycle's Sinyard learned long ago. "One of the key things," he says, "is not to do too many [new] projects and to choose the things that are consistent with your mission—and that differentiate you."

Define and differentiate the product.

A product may fail because the timing or price wasn't right, the quality was poor, or the design was flawed. But the main reason usually is lack of a competitive difference, according to a 1996 survey of new-product managers by Group EFO Ltd., a product consulting firm in Weston, Conn.

PHOTO: ©PAUL SOUDERS

A focus group *provided input to develop the distinctive soup packaging needed to expand Stockpot's retail operation, say Mike Fortun, left, vice president of marketing, and brother Kevin, the company's president.*

In fact, of the 24,496 packaged goods introduced in the United States last year, only 7.2 percent offered something new or significantly different to customers, according to Marketing Intelligence Service, Ltd., a firm in Naples, N.Y., that tracks and analyzes new products. The rest of the products simply were not truly innovative in any of five areas: formulation, positioning, packaging, technology, or creating a new market.

"It never ceases to amaze us when we go to a trade show how many similar products are there," says Tom Vierhile, general manager of Marketing Intelligence Service. "It seems that companies could do a better job of finding a market opening. I think that, often, companies will see a trend and just jump into it."

Why would a company go to the time and expense of bringing such products to market? Probably because it didn't do the necessary market research and product definition—in the so-called fuzzy front end of the process—that sets the stage for a successful and unique product. (See "Test Your Product Idea," on Page 23.)

Be sure to test the market.

The Product Development & Management Association found in its best-practices study last year that two factors are most likely to foster product success.

"In-depth interviews with customers and observing how people use the service or product are what really separate the best from the rest," says Paul Belliveau, a consultant in Westfield, N.Y., who specializes in small-business products and who is president-elect of the product-development association. "These two tools used early in the development process tie directly to a high success rate. Research has the biggest impact at the beginning of the process; that's where people in a hurry give short shrift to the process."

At Specialized Bicycles, product-development specialists use a simple test: When creating a platform for a new product, they list three features that they believe will lead customers to buy that product over others. "When you can say that—in a short, simple, and clear statement—that product will be a winner," says Sinyard. "If not, you're going to struggle."

Even a tiny company can take modest steps to test-market demand. When Millie Thomas, president of RGT Enterprises, Inc., in Fort Collins, Colo., wanted to develop a new children's toothbrush, she had

Warning Signs

How can you determine if your company is offering customers all that it should—or could?

"The first clear signal is when you find yourself reacting to the market," says Robert G. Cooper, a professor of marketing and technology management at McMaster University in Hamilton, Ontario. Business owners should beware, he says, if they find that their company is in a scrambling mode, in which the majority of effort is being spent on trying to catch up with something a competitor has just released.

"A real sign of danger is if [new types of products] are coming out that change the way things are done in your industry and you're not involved in the change," Cooper says.

Other signs of product-related problems include declining market share and customer dissatisfaction, he says.

A downward trend in prices in a particular category is another warning sign, according to other product experts.

There's another indicator that many companies don't even measure, Cooper says. A drop in the percentage of sales that come from new versus older products is a sign of too much reliance on existing products and not enough focus on tomorrow's.


"I'm very pleased–DR gives us a comprehensive plan for a very reasonable cost. And our employees are very grateful."
–Dale Johnson, Town of Cary Cary, NC (605 employees)
"The administration of our DR program alone gives us tremendous savings–about one-third less than our previous plan, which required third-party administrators."
–Jeff Yoder, First Security Bank Salt Lake City, UT (8,000 employees)
"We've found that DR is less costly than fully insured dental plans. In fact, without it, we wouldn't be able to offer dental coverage. It's well-received because the payments to the employees are fast. And it's easier to administer."
–Edward Askew, Greenville Utilities Commission Greenville, NC (353 covered employees)
"DR is our best employee benefit. It gets the highest praise from our people. It's easy to explain and easy to understand. They get fast reimbursement and no hassles–truly refreshing in this age of medical complexity."
–Bill A. Tarro, Independent School District Lubbock, TX (3,300 employees)

little money for market testing. But she took a clay prototype of her triangular-stemmed toothbrushes to pediatric dentists, and she persuaded day-care centers to let her survey parents on what they thought about the unconventional safety handle.

"There was an overwhelmingly positive response," she says. "From that, I knew I wanted to go forward." The comments she received helped Thomas understand her target market and refine her fledgling product. Now, though her company's annual revenues are under $1 million, Kindertools are sold in thousands of stores nationwide.

When Mike, Kevin, and Steve Fortun, brothers who own Stockpot, a specialty-foods company in Redmond, Wash., wanted to expand their retail operation, they had to create new packaging for their soup concentrate. Because the soup was a proven success with customers in the food-service industry, marketplace differentiation in retail hinged on distinctive and effective packaging. The design was created by focus groups, says Mike Fortun, vice president of marketing for Stockpot, which has $50 million in annual revenues.

"[The focus groups] told us how much product to put in a package, what the package should say, and how much they wanted to spend," he says.

The research was worth the effort: Stockpot's resealable plastic pouch was one of only 10 packaged products introduced last year that Marketing Intelligence Service considered truly innovative. In fact, the product created an entirely new category of fresh, refrigerated soups, and in less than a year it drove the company's retail sales from 2 percent of revenues to 10 percent.

Track your firm's progress.

Having a process for evaluating projects at intervals along the way confirms whether a product in development is still going to meet customer needs, whether it is still financially feasible and technically possible to produce, and whether it is advisable in light of market or other developments.

In a small company, that process can be as simple as having the CEO and a few other key people take a hard look at each project periodically and provide honest views about whether they believe the company should proceed with it, regardless of whose idea it was, says product consultant Himmelfarb.

A larger company might have a more elaborate system, he says, perhaps a new-product committee that meets regularly with the project teams to evaluate products in development.

"We've had many products fail," says Sinyard, whose Specialized Bicycles has grown from a start-up in 1974 to $150 million in sales last year. "We can actually

A Fresh Spin On Services

Because of the fleeting nature of services, continuous development of offerings is even more critical for service companies than for companies that produce products.

"Services are intangible, and they can and do get copied very easily," says Craig A. Terrill, president of Kuczmarski & Associates, Inc., a management consulting firm in Chicago.

Service firms also have a different type of relationship with their clients than do firms that sell products. "Customers need to feel that they are getting added value [with service providers]," Terrill says. "They start to expect part of what you offer to be free, so you have to keep filling the hopper with more value and keep offering new things. Otherwise, the service becomes a commodity, where price alone is the factor" that buyers consider.

Questions that service firms might ask themselves include:

- Could existing offerings be presented in a different way?
- Could they be tailored to new customer groups?
- Could small aspects of service be added or enhanced continually to freshen and add value to the offering?
- Could services be improved or changed?

John W. Cuningham, founder of a Minneapolis architectural firm, the Cuningham Group, had survived quite nicely since 1968 by providing architectural services to clients. But in 1991 the firm began adding other services that customers said they needed, beginning with interior design, then environmental resources, construction services, urban design and planning, and, most recently, visual communications.

PHOTO: ©STEVE WOIT

After adding services, *the Cuningham Group architectural firm is poised for the future, says founder John W. Cuningham, second from right, talking with members of the firm.*

The idea was to provide a comprehensive package, with an emphasis on services for which demand is likely to grow.

"We looked ahead," says Cuningham. "We asked, 'Why will clients hire us in 2000 or 2005?' Now we're able to—with credibility—offer services that move us up into larger projects. With this, we can do more with fewer clients. It allows us to be more selective of clients we take on."

Without focusing primarily on boosting revenue, the firm has nonetheless done just that. In the past five years, annual billings have grown from $2 million to $24 million, and the firm's employment has risen from 18 to 220.

Service firms can take a cue from manufacturers and retailers in adopting a disciplined, systematic approach to developing new offerings, say management consultants. Terrill says that services, like products, should always be developed in response to the patterns revealed when target customers are asked why they buy and what they want.

Arrival Times

More than half of 400 small and large U.S. companies surveyed by the Product Development & Management Association said they developed products faster last year than they did five years earlier.

Average Development Times

	1996	1991
Breakthrough Products	42 months	49 months
New Product Lines	29 months	35 months
Major Product Revisions	18 months	22 months
Minor Product Revisions	8 months	10 months

SOURCE: PRODUCT DEVELOPMENT & MANAGEMENT ASSOCIATION, CHICAGO

spot them easier now," he says. "We once made a beautifully engineered helmet called the Headlock. We spent a lot of time on the tooling of it, and we liked it."

In focus groups, customers said it was too bulky, but the company went ahead with it anyway—and it failed.

"Now, when we see a product that doesn't meet the criteria we've set, we say that looks like another Headlock," says Sinyard. "We have enough people who have the courage to say it won't work."

Product experts also say that revisiting failed products to learn what went wrong is a valuable exercise, although few companies, large or small, actually do so.

Stay focused on your goal.

Maintaining discipline and focus as products are developed saves time and keeps costs down. The keys are setting schedules and being willing to stop creative people—and sometimes top managers—from endlessly tweaking.

Otherwise, the finished product may bear little resemblance to the drawing-board version that everyone endorsed.

Himmelfarb advises clients to "freeze product features early and keep them frozen. There is such a thing as obsessive development." An advantage of the now-standard cross-functional-team approach is that it involves all the key areas of the company from the beginning of the process, which prevents a salesperson or an engineer, for example, from asking for different features after the significant development has been completed.

"When you have your key people present

Where To Learn More

The following resources offer some of the latest advice from product-development experts for companies trying to increase their success with new products or services and to manage their product-development processes more effectively.

How To Evaluate the Potential for Success of a New Product or Technology, by James F. Riordan, a product consultant. This practical, 237-page workbook for small companies includes exercises designed to help analyze a product's potential. To order, call The James F. Riordan Co., Inc., in Cameron Park, Calif., at (916) 676-4729; $49.95.

The PDMA Handbook of New Product Development, edited by Milton D. Rosenau Jr. This 630-page book offers sections by dozens of product-development experts who are members of the Product Development & Management Association. It covers all aspects of product development and includes a glossary and a chapter on best practices. (John Wiley & Sons, Inc.; $69.95.)

Portfolio Management for New Products, by Robert G. Cooper, Scott J. Edgett, and Elko J. Kleinschmidt. This new, 130-page paperback addresses resource allocation for new products and includes information about how to set priorities and establish a corporate product strategy. To order, call (905) 525-9140. (McMaster University Press; $29.95.)

The Power of Product Platforms, by Marc H. Meyer and Alvin Lehnerd. This book explains how to build entire families of products from a single platform of common product structures and processes. (The Free Press; $35.)

Product Innovation Strategy: How Winning Companies Outpace Their Competitors, by Michel Robert. This 173-page book covers the entire product-development process, with particular attention to fostering and maintaining innovation. (McGraw-Hill, Inc.; $24.95.)

Relentless Growth: How Silicon Valley Innovation Strategies Can Work In Your Business, by Christopher Meyer. This new book, scheduled to be available in November, addresses how to balance the creation of innovative new products and the everyday pressures of operating a business. (The Free Press; $27.50.)

Winning at New Products: Accelerating the Process from Idea to Launch, by Robert G. Cooper. This book is geared to helping companies create and execute a game plan for launching innovative and market-driven products. (Addison-Wesley Publishing Co.; $20.)

Product Development Best Practices Report, published monthly by The Management Roundtable, Inc., in Waltham, Mass. This 12-page newsletter offers articles on a variety of topics, including trends and new technologies. To order, call (617) 891-8080; $247 per year.

at all meetings," says Himmelfarb, "it virtually eliminates those costly last-minute additions."

Don't lose sight of quality.

Though many companies have succeeded in shortening development time significantly in recent years, many have amended their earlier strategy of being first to market at all costs, according to Cooper of McMaster University. The companies have found that if the product isn't right for the market, getting there first doesn't make much difference.

Product-failure rates tell the story. In the retail grocery business, for example, 70 to 80 percent of new products fail to meet the profit or market-share objectives set by their companies, according to a study by Linton, Matysiak & Wilkes, a firm in Blacklick, Ohio, that does market research for the perishable-foods industry.

"People started doing a lot of stupid things to speed up development time," says Cooper. "In their desire to get something out fast, they started taking shortcuts," usually in the early part of the development process. New studies, he says, show that to have a good rate of success, "you still have to have a good product and do things right."

> **Some firms "started doing stupid things to speed up development time."**
> —Robert G. Cooper, McMaster University

"In the past, it's been very easy to do 'ready, fire, and aim' without dire consequences. I don't think companies can afford to do that today. And a mistake by a small company can be a knockout issue."

Keep the pipeline full.

Being ready to bring out the next product—and the one after that—is the best way to keep ahead of the game, experts agree.

For example, even before Hy-Tek's new lighted remote was on the market, John Bastian, the company's vice president, already had two related follow-up products designed and ready for production. After Millie Thomas had some initial success with her innovative toothbrushes for children, she developed other products with the same triangular-shaped safety handle, including a crayon holder, paintbrushes, and fingernail brushes.

A Torrington, Conn., company's entire product strategy is built on taking existing products and making them easier to use, according to Sal Canino, CEO of Innovative Concepts Corp. Just out of the research-and-development stage, the company did $1 million in sales the first quarter of this year. Most of that came from its new snake-necked screwdriver, which allows better accessibility in tight places than a standard screwdriver does.

Canino's plan is to bring out three products a year based on the same concept as the SnakeDriver. He's using the same strategy with a second line of products: motion-activated safety lights for bicycles.

For America's fastest-growing small companies, new-product development and market-driven innovation stand out as the main power sources, says Bob Fish, a New York City-based partner at the Coopers & Lybrand accounting and consulting firm. A recent Coopers & Lybrand survey of 419 companies with revenues under $50 million showed that nearly two-thirds of the CEOs believe their ability to develop new products represents a major competitive advantage.

Says Canino: "We can't compete with big guys like Sears or Stanley. We have to hit the market with innovative products. Keeping our name out there is very important; so is building revenue for the company.

"We try to protect ourselves by being the first. By being leaders with a product, we are associated with it," he says. "And partly because the potential chance for knockoffs is so great, we have to get those products out to market." NB

To order a reprint of this story, see Page 72. For a fax copy, see Page 47.

Test Your Product Idea

If more time were spent on testing the viability of ideas for new products, more unsuitable products would be eliminated in the early stages and fewer products would fail, say product-development experts.

The test below, developed by the Chester Marketing Group, Inc., of Washington Crossing, Pa., is based on an approach that calls for determining at intervals whether to continue with a project.

To calculate your score for a particular project, circle the number for the most suitable description next to each criterion, multiply it by the "weight" figure at the right, and add all the multiplied numbers to produce a total. To advance to the next phase of product development, your total score should be at least 16.

Criterion				Weight
Extent Of Target-Market Need	Below Average 1	Average 2	Above Average 3	x2
Potential Profitability	Below Average 1	Average 2	Above Average 3	x2
Likely Emergence Of Competition	Within Six Months 1	Six Months To A Year 2	More Than A Year 3	x1
Service Life Cycle	One Year 1	One To Three Years 2	Three Or More Years 3	x1
Compatibility With Strengths Of Company	Below Average 1	Average 2	Above Average 3	x2

TAXES

Business Just Got Less Taxing

From capital-gains cuts to estate-tax relief, there's plenty in the new tax law for small businesses to like.

By Joan Pryde

The way Michele Dyson figures it, the new tax law enacted in August is going to make it easier for her to keep her Silver Spring, Md., company, CIS Global, on the cutting edge of computer technology.

Dyson needs to buy state-of-the-art equipment early in 1998 for her company, a systems integrator and Internet-access provider, so it can continue to provide the best service possible for its customers.

Dyson was considering selling investment property to raise the $200,000 or more she would need. Selling the property makes even more sense now because the law, enacted Aug. 5, lowered capital-gains rates and will let her keep more of any profit from the sale.

PHOTO: T. MICHAEL KEZA

The newly enacted reduction *in the capital-gains-tax rate will help Michele Dyson raise the funds she needs to upgrade the computer equipment her systems-integration firm uses.*

"Without some sort of tax benefit, it's hard to plow thousands of dollars into new equipment," Dyson says. Any time the company can save money with a particular type of investment, that's where the money will be spent, she says.

The capital-gains cut, which applies to individuals and small firms whose income shows up on the owners' personal income-tax forms, is one of a host of provisions in the new law expected to benefit small businesses.

Other such changes include a reduction in the estate tax, a new exemption from the alternative minimum tax, expansion of the home-office deduction, restoration of deductibility for employee educational expenses, and a variety of changes in pension laws.

"These tax cuts are grease for the wheels of the American economy," says Bruce Josten, the U.S. Chamber of Commerce's executive vice president for government relations.

Though some benefits will be seen immediately, small businesses won't feel the full effect of the most important tax changes until after 2002. That's when the federal budget deficit is projected to be wiped out as a result of the new balanced-budget law, which contains the tax-cut package.

The estate-tax and health-deductibility provisions, as well as part of the capital-gains reduction, are all "back loaded"—meaning that most of their benefits will arrive late in their phase-in periods.

Capital-Gains Cuts

The new law cuts the top tax rate for individuals on long-term capital gains to 20 percent from 28 percent, although the holding period has risen to 18 months from 12 months. (Profits on assets held 12 to 18 months are taxed at the former 28 percent rate; assets held less than 12 months are taxed at the individual's personal rate.) Taxpayers in the 15 percent income-tax bracket get a lower rate of just 10 percent on assets held at least 18 months, down from 15 percent.

The new rates are effective for sales after July 28, 1997.

Because no changes were made to the corporate capital-gains tax, with its top rate of 35 percent, the only businesses that benefit from the new rates are partnerships, S corporations, and sole proprietorships.

The new law contains an even bigger individual capital-gains break that is on the horizon, though how quickly you become eligible for the break depends on your tax bracket.

Beginning Jan. 1, 2001, taxpayers in the 15 percent income-tax bracket will have an 8 percent capital-gains rate for assets they have held for at least five years. Taxpayers in higher income-tax brackets will get an 18 percent rate on assets held at least five years, but only for assets acquired after Jan. 1, 2001. Thus, those taxpayers won't actually get the benefit of the 18 percent rate until at least 2006.

Delaying the lower rates on assets held five years is one of the instances of back loading in the tax law.

The full benefits of the new capital-gains rates are not granted to investments in business real estate, however. If you sell property that you depreciated, any capital gain attributable to that depreciation is taxed at 25 percent. Only gains above the

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amount depreciated are eligible for the 20 percent and 10 percent rates.

Boost For Small-Business Stock

Another provision enhances a tax statute on the books since 1993 that gives a special capital-gains break to investors in small-business stocks. The 1993 law allows a 50 percent exclusion on gains from stock held at least five years if the company issuing the stock is deemed a qualified small business. A business must meet a host of requirements to qualify, the most important of which is that its assets total no more than $50 million.

The new tax law gives you a way out if you decide to sell your stock within the five-year window: You can avoid paying taxes on your gain as long as you roll over the proceeds into the stock of another qualified small business. And you can still qualify for the 50 percent exclusion after the initial five years.

Tom Ochsenschlager, a partner in the Washington, D.C., office of accounting firm Grant Thornton LLP, says the new "rollover" provision is a significant improvement to the earlier statute because the five-year holding period has been a major deterrent to investors who may have wanted to cash in on the 50 percent exclusion. "When we talk to people about this provision, their reaction is they never met a stock they wanted to hold for five years," he says.

Alternative Minimum Tax

If you can't take advantage of the new capital-gains rates because your business is structured as a corporation, you still may find some relief in this bill if you're currently paying the corporate alternative minimum tax (AMT).

Beginning with the 1998 tax year, small corporations will be exempt from the AMT. In this case a small business is defined as one with annual gross receipts of less than $5 million.

According to Congress' Joint Committee on Taxation, the provision is expected to exempt most companies from having to calculate and pay their taxes under the corporate AMT. The committee estimates that the provision will exempt about 25,000 small corporations, with annual tax savings averaging about $30,000 per company.

One of those small companies is Immediate Temporary Help in Midland, Mich., a firm that supplies area businesses with temporary workers for clerical and light-industrial jobs. Owner Sharon Miller says the firm, with annual gross receipts of about $3.5 million, will be below the new threshold.

"We're very pleased with that [provision,]" Miller says. "That's a big chunk of change at the end of the day."

The Estate Tax

Owners of small firms will also benefit from estate-tax changes, one of which is an across-the-board increase to $1 million in the $600,000 exemption amount, phased in over 10 years.

The exemption amount will rise to $625,000 next year and to $650,000 in 1999; incremental increases will continue through 2006. The heftiest increases don't begin until 2004, when the exemption rises to $850,000 from $700,000. It will jump again in 2005, to $950,000, before topping out at $1 million in 2006—another example of back loading the tax cuts.

For closely held businesses, the tax law includes an additional exclusion designed to bring an individual owner's exemption up to $1.3 million immediately. With proper estate planning, a married couple can qualify to exclude $2.6 million of value of a family-owned business from taxation.

There is no provision for annual, inflation-based increases in either the estate-tax exemption or the exclusion.

The small-business exclusion interacts with the increase in the exemption amount, so that the special exclusion decreases each year in proportion to the exemption increase.

For example, in 1998 the special exclusion will be $675,000. If you add the $625,000 exemption, you get $1.3 million. In 1999, when the exemption rises to $650,000, the special exclusion drops to $650,000.

Tax experts warn, however, that there is a catch to getting the special estate-tax exclusion: The eligibility requirements are so stringent and difficult to figure out that you'll almost certainly need professional help to know if you qualify.

"That is probably going to be one of the most complicated provisions of the [Internal Revenue Service] code," says Mark Watson, a director in accounting firm KPMG Peat Marwick's personal-financial-planning office in Dallas. "The extremely complicated nature of this provision will probably make it useful for only a very small percentage" of small-business owners, Watson predicts.

But Richard Herring, vice president of The Gloucester Co. in Franklin, Mass., says the estate-tax changes still are welcome news and will benefit his business in the short term.

Herring's father, Curtis, 81, is still president of the company, which has been in business about 40 years and has 40 employees. Gloucester manufactures sealants used in home repair, including a caulking compound called Phenoseal.

Because of the senior Herring's age, "the death tax has loomed over our company" for some time, Richard Herring says, and the increase in the exemp-

PHOTO: ©RICHARD HOWARD

Family businesses *will benefit from the increase in the estate-tax exemption, says Richard Herring, vice president of a firm that makes sealants for home repair.*

tion amount coupled with the special exclusion will help reduce taxes on his father's estate when the time comes.

Education Assistance

Congress also resurrected a popular tax break for educational assistance provided by employers.

The exclusion allows an employee to be reimbursed by his or her employer for up to $5,250 per year in undergraduate costs without having to count that amount as taxable personal income. Graduate-school costs are not included.

Employers may deduct educational assistance as a business expense.

In 1996, Congress had given the exclusion a temporary reprieve that expired May 31, 1997. The new tax law renews the exclusion retroactively and extends it through May 31, 2000.

Deductions For The Self-Employed

For the self-employed, the tax law expands upon two existing tax breaks. One is the deduction for the use of a home office. The other is the deduction for health-insurance costs.

Under the new law, a home office will qualify for the deduction if administrative tasks are conducted there and at no other location. That means that home-office costs meeting those criteria are deductible even if no clients visit the home office and no business transactions occur there.

The other tax break is the deduction for health-insurance costs of the self-employed. The new tax law provides for a 100 percent deduction after 10 years, whereas the 1996 law capped the deduction at 80 percent after 2006. The level for 1997 is 40 percent.

Besides raising the deduction to 100 percent, the new law also accelerates the increase. For example, prior law would have kept the deduction at 45 percent from 1998 through 2002, while the new statute raises it to 50 percent in 1999 and 55 percent in 2002.

Even so, the rise in the deduction is still back loaded under the new law so that the biggest increases don't occur until after 2002. The deduction goes to 80 percent in 2003, then 90 percent in 2005, and finally 100 percent in 2006.

Ernest Oriente, who operates The Power Hour, a home-based business in Irvine, Calif., says the significance of the provisions for self-employed business owners goes beyond any practical effect.

"These changes are really sending a signal about respect and recognition that home-based businesses are a vital part of the economy," says Oriente, whose clients call him weekly for a 30- to 45-minute coaching session designed to help them be more successful at work and in their personal lives.

He believes the number of home-based businesses is on the rise; six of his 10 immediate neighbors work from their homes, he says. "For all of us, this feels like recognition for what we've been doing" for the economy, he says.

Retirement Provisions

The biggest change in pension taxes for business owners is the permanent repeal of the 15 percent excise tax on "excess" retirement-account withdrawals. These are defined as withdrawals above $160,000 a year or a lump-sum payout of $800,000 or more.

> **"These changes are sending a signal about recognition that home-based businesses are a vital part of the economy."**
>
> **—Entrepreneur Ernest Oriente**

In addition, the new tax law repeals the 15 percent estate tax imposed on a deceased individual's "excess" accumulations, which included all of a person's qualified (tax-deferred) retirement assets and individual retirement accounts.

Other major pension-law changes include:

■ Self-employed individuals are permitted to receive a full company-paid "match" to their defined-contribution retirement plan, such as a 401(k). Until now, sole proprietors, partners, and other self-employed people were prohibited from receiving full matching contributions from the company to their defined-contribution retirement plans—a benefit available to workers and owners in incorporated businesses.

However, the new law limits a self-employed person's combined retirement contribution to $9,500 a year for a 401(k) or $6,000 a year for a SIMPLE account, which in some cases may be lower than the combined limits for employees.

■ The "cash-out" threshold for retirement accounts of departing participants is raised to $5,000 from $3,500. Employers generally will cash out small accounts because maintaining them is not cost-effective when an individual stops contributing to the plan.

■ The IRS and the Labor Department are required to issue rules by 1999 to allow electronic filing of pension information.

■ The "full-funding" limit, which caps the amount of capital a defined-benefit retirement plan is permitted to maintain, is gradually raised to 170 percent of current liability from the current 150 percent. The change is expected to allow companies to improve funding of their pension plans and to improve pension security.

■ Various technical changes were made to employee stock-ownership plans sponsored by S corporations, which have no more than 75 stockholders. The result is likely to encourage employee ownership among S corporations.

■ Rollover rules are eased for retirement accounts transferred from a worker's previous retirement plan, as are certain rules for filing retirement-plan descriptions with the Department of Labor.

Congress dropped a controversial provision from the final tax bill that would have required spousal consent for all distributions from 401(k) plans.

More To Come?

For all the tax changes in the new law, Congress still left out many changes sought by businesses. For example, lawmakers considered, but in the end dropped, a provision designed to help employers determine for tax purposes whether a worker is an employee or an independent contractor.

Although the proposed provision wasn't the last word on how to classify workers, "it was a major step in the right direction. It did simplify things," says Barry Frank, head of the Independent Contractors Group at the law firm of Mesirov Gelman Jaffe Cramer & Jamieson in Philadelphia. The issue of worker classification isn't going away, says Frank. "We're going to see this issue come up again" in Congress.

Small-business owners say that among the actions lawmakers need to take are providing more estate-tax relief and speeding implementation of full deductibility for health insurance for the self-employed. But Dyson of CIS Global says the new tax law is still a good beginning. "You can't do it all at once," she says. "It's a step in the right direction." NB

Senior Associate Editor Stephen Blakely contributed to this article.

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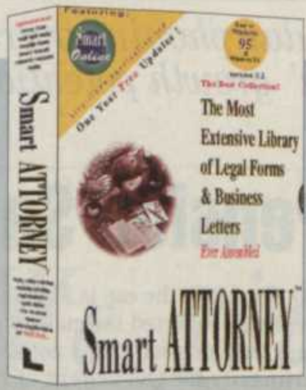

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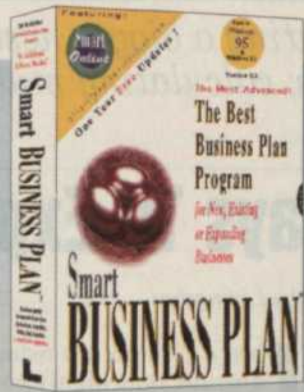

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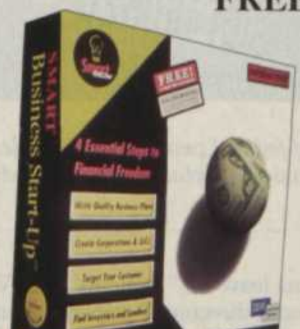

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Ways To Expand Pension Savings

By Abby Livingston

When a 1993 tax law reduced the amount that highly compensated employees could save under standard pension plans, the Berkshire Gas Co. needed to find a way for key executives to supplement their ability to save for retirement.

The board of directors of the 155-employee public utility in Pittsfield, Mass., opted to create a "nonqualified" pension plan for the company's top five executives. Nonqualified plans are those that are not subject to most federal pension-law provisions and, as a result, don't qualify for as many tax breaks as regular pension plans.

Berkshire Gas' nonqualified plan enables the five executives to make up the difference between what the law permits them to put into the company's 401(k) plan and what they want to defer, subject to the company's maximum deferral limit. While nonqualified plans are not subject to the contribution limits that apply to regular pension plans, Berkshire Gas sets a limit of 15.5 percent of income.

PHOTO: ©MARTIN BENJAMIN—BLACK STAR

A "nonqualified" pension plan *that is exempt from most provisions of federal pension law enables Michael Marrone and other top executives at Berkshire Gas Co. to defer pretax income for retirement over and above what's allowed under their 401(k) plan.*

"We were looking for benefits to make us whole," says Michael Marrone, Berkshire Gas' treasurer and chief financial officer, who is covered under the new nonqualified plan. "We felt that the company's 401(k) plan discriminated against highly compensated employees."

And there's the rub. In 1993, Congress reduced the compensation that can be considered for calculating contributions to a qualified retirement plan from $235,840 to $150,000. (Such plans are fully subject to federal pension law.) The cap is adjusted periodically for inflation, but only in increments of $10,000. For 1997, the cap is $160,000.

The cutback reflected lawmakers' desire to ensure that pension plans not be operated primarily for the benefit of highly paid employees. The laws already contained anti-discrimination tests that limited tax-deferred contributions of the highly compensated in relation to lower-paid employees. Failure to pass these tests triggers a refund of excess contributions, which is taxed.

That's why more small companies, like Berkshire Gas, are supplementing their qualified retirement plans with nonqualified plans. Doing so enables companies to provide key executives with supplementary deferred compensation.

A Supplement On The Rise

A survey of 200 small businesses conducted by the Profit Sharing/401(k) Council of America, a Chicago trade group, found that 11.6 percent of respondents with 401(k) plans offered some additional nonqualified arrangement in 1995, the latest year for which data are available. Two years earlier, only 2 percent of survey respondents offered a nonqualified plan.

"Nonqualified plans pick up where qualified plans leave off," explains Joan Vines, the national director of employee benefits and tax services in the Washington, D.C., office of the accounting firm Grant Thornton. "Companies are looking at their retirement plans to see if executives are getting their full share. If they're not, companies are providing something extra to bring them up to qualified plans, without any limitations."

Nonqualified plans give employers freedom to choose which employees to include, and they allow the employers great discretion in determining contribution amounts and vesting schedules. In addition, the plans are exempt from nondiscrimination

tests, and there are no limits on how much pretax income highly compensated employees can defer into a nonqualified plan. Income from a nonqualified plan is not taxable until it is paid out to the recipient after retirement.

Beyond that, nonqualified plans typically offer investment options similar to qualified plans, such as mutual funds. They also contain hardship provisions that outline when funds can be withdrawn.

The biggest drawback for employers is that the company does not get a tax deduction for any contributions it makes to a nonqualified plan until the employee receives the benefit. At the same time, the company has to claim as income any earnings on assets put into the plan.

"Initially, it's a double negative," says Rob Vetere, vice president of Diversified Investment Advisors, an investment advisory firm in Purchase, N.Y., that specializes in retirement plans.

Potential Downsides

For employees, there are two major types of risks associated with nonqualified plans. One is the possibility that the company could not pay benefits if it went bankrupt. By law, money in a nonqualified plan is subject to the claims of the company's general creditors. If the company goes under, the employee becomes just another creditor.

The other risk is whether the company will remain willing to pay benefits. Executives might need assurance that future generations of managers will honor the retirement plans.

To make good on their promises to pay, many companies finance their nonqualified plans with variable life-insurance policies or mutual funds, or they set up a "rabbi trust" (so named because the first was established for a Baltimore rabbi).

With a variable life-insurance policy, the business takes out policies on the lives of the top executives. The investment grows without being taxed. When it's time to pay benefits, the company may withdraw the money from the individual policies piecemeal or cash them in.

But cashing in the policies will trigger a corporate taxable gain, says Jim Herlihy, president of American Benefit Corp., a Rutland, Vt., firm that designs and implements executive benefits programs. "The favorite techniques," he says, "are to withdraw the money or have the company pay the benefits out of operating assets and keep the policies until the executive dies. Then, the company will collect the death benefits without owing any taxes."

A rabbi trust protects contributed money from being used for any purposes other than to pay benefits. But it does not protect the funds from bankruptcy.

> **"I've seen people defer 100 percent of bonus and 50 percent of salary."**
>
> —Rob Vetere, Diversified Investment Advisors

How To Go About It

If you decide that a nonqualified plan would be good for your company's key executives, contact a benefits consultant who designs retirement plans and who can handle the continuing administrative requirements for your firm. A tax attorney or accountant might also be able to help. The actual plan is a legal contract that spells out its provisions. The U.S. Department of Labor must be notified by letter that your company has set up a nonqualified plan.

The hard part of the process will be deciding which type of nonqualified plan to establish. There's a wide range of similar nonqualified plans available under various names. Here are some options:

401(k) Wrap-Around Plans

These plans—also called 401(k) overlay plans—are, literally, wrapped around an existing 401(k) plan.

Here's how they work: As the select executive group hits the deferral limits, their contributions spill over into the nonqualified plan, thereby enabling them to continue deferrals on a pretax basis.

Let's say that you earn $200,000 a year and the plan formula calls for the company to match the employee's contribution dollar-for-dollar up to 3 percent of salary. Under the U.S. tax code, the maximum compensation you may take into account for determining benefits in 1997 is $160,000. That means you're earning $40,000 that can't even be considered for company-sponsored qualified retirement plan savings.

"In a qualified plan, the most that an executive could put away is $9,500 on a pretax basis—assuming a typical 6 percent deferral rate—with a $4,800 match," says Vetere of Diversified Investment Advisors. "But by setting up a wrap-around plan, the executive's deferral could continue for another $2,500—and he or she would get another $1,200 in matching contributions."

A twist on this type of plan is the one implemented by Berkshire Gas. Here, the company's five senior executives defer a portion of their income into a "tandem" nonqualified plan. At year-end, the 401(k) nondiscrimination tests are run, with the maximum amount deposited for each executive in the company 401(k) plan. The balance goes to the nonqualified plan.

The benefit, says Vetere, is that the executives can maximize the amount in the company's 401(k) plan, which is the safer investment.

Straight Deferral Plans

This type of plan will come in handy if your company doesn't have a qualified 401(k) plan but you want to take care of yourself and your top executives. The deferral could consist of all company money, all employee money, or a combination.

Here's what you would do: In the calendar year before the year in which deferrals are to begin, participants elect to defer a certain percentage of pretax salary directly into this nonqualified plan. There really is no limit on the amount of money that can be deferred. "I've seen people defer 100 percent of bonus and 50 percent of salary," says Vetere.

With the wrap-around and the straight deferral plans, the value of the account may be distributed as a lump sum or in installments upon retirement. The amounts are taxable income when received.

No matter how tempting these plans sound, it's not a good idea to offer them to too many people. In fact, the law mandates that only select groups of the best-paid employees can be included in nonqualified plans.

"If you offer it to too many people, the plan would not be considered a nonqualified plan, and it would become subject to ERISA [federal pension laws]," says Vetere. "Then you'd have a qualified plan that is discriminatory—and you'd be worse off than when you started." ■

Abby Livingston is a free-lance business writer in Scarsdale, N.Y.

TELECOMMUNICATIONS

Cellular Phoning Far From Home

Need to stay in close touch with your office while traveling overseas? With the exception of a small number of countries, most in South America, your personal cellular phone won't work because of incompatible telecommunications systems.

That problem will soon subside with the advent of "smart cards," which are inserted into cellular phones so that they are able to "read" a different technology. In the meantime, though, there's another option: renting a cell phone.

A small number of companies offer rental cell phones that are designed to work with the GSMC, or Global System for Mobile Communications. The system is used in more than 50 countries in Europe, Asia, and Africa.

Most companies provide free overnight delivery anywhere in the United States. Generally, there's a rental fee—it kicks in upon the traveler's arrival at an overseas destination—in addition to charges for calls.

Here are several companies that provide cell phones for international travel. Prices are based on typical currency exchange rates.

Hirefone USA (1-888-HIREUSA; 1-888-447-3872) charges a phone-rental fee of $19.95 a day, with a three-day minimum; $89.95 a week; and $199.80 a month. Local calls in the United Kingdom cost between 25 and 55 cents.

International Cellular Services (1-800-897-5788) charges $70 for the first week and $50 per week thereafter; the charge is about $10 per day. The monthly fee is $150. Instructions come with a 24-hour help number, and local calls in the United Kingdom cost $1.25 per minute.

PHOTO: ©CATHERINE KARNOW—FOLIO, INC.

A rented cellular phone *can help business travelers overseas stay in touch with the office.*

The Parker Co. (617-596-8282), based in Lynn, Mass., charges about $10 a day, $60 a week, and $170 a month for its Nokia phone. Customers pay a $30 activation fee and a $36 charge for delivery and return for rentals of less than 14 days.

Charges for calls vary. In the United Kingdom, local calls are 45 cents and incoming calls are free; calls to the United States are $1.22 per minute. In Russia, outgoing local calls are $2.77 per minute, and incoming calls are $1.82; calls to the United States are $6.97 per minute.

Worldwide Cellular (1-800-234-8041) charges no rental fee but does charge a flat rate of $2 per minute for outgoing and incoming calls within Europe. Customers are charged a five-minute minimum per day. Calls to numbers on other continents are $4.99 per minute; incoming calls from such numbers are $2 per minute.

In addition, AT&T offers a CellCard, which fits into the back of a GSMC phone and automatically routes to that phone any calls made to the customer's domestic AT&T cell phone. The cost is $49.99 per year plus long-distance fees, roaming charges of $2.49 per minute for incoming calls, and $2.49 per minute for outgoing calls.

—Lynn Woods

The author is a free-lance writer in Kingston, N.Y.

BUSINESS DEDUCTIONS

Tax-Wise Handling Of Expansion Costs

Business owners now can deduct the costs of expanding within the same line of business faster than previously allowed under Internal Revenue Service regulations.

Until recently, such costs had to be capitalized—deducted—over at least 60 months, just like start-up costs for a new business. But the IRS ruled last fall that expenses incurred while expanding within the same line of business, such as the costs of opening a second dry-cleaning shop or a second bakery, can be deducted right away.

The change in policy came in a private-letter ruling addressing a specific contested case. In principle, the ruling applies to all similar situations.

To qualify for immediate deductibility, you have to show that the business you are developing is an extension of your current business. In addition, the expenditures made must be ordinary and necessary expenses of that business. Examples include costs of advertising, office supplies, travel, utilities, repairs, and employee wages.

The IRS private-letter ruling dealt with an unidentified retail chain that was opening new stores as part of an expansion program. The agency said that the costs of opening the new stores could be deducted immediately as business expenses.

Of course, there are limits to how far you can go to avoid spreading your deductions over 60 months. You cannot avoid capitalizing the acquisition of a new plant. Expenditures for the acquisition of capital property—whether to form a new business or to expand an existing one—must be deducted over 60 months.

But hiring a consultant, for example, to help you expand can be deducted if what you are doing is considered to be an expansion of your existing business.

If you cannot characterize your new undertaking as an expansion of your existing business, you must deduct costs over at least 60 months. So you might want to postpone any spending that can wait until after your business is up and running. After that point, costs can be deducted immediately.

—Milton Zall

The author is a free-lance writer in Silver Spring, Md., who specializes in business and tax issues.

INVESTING

Using Past Performance To Pick Mutual Funds

By Randy Myers

Suppose you had been offered a gift on Jan. 1, 1996: A generous benefactor had agreed to give you $10,000 worth of either the best-performing mutual fund from the prior year or $10,000 worth of a consistently average performer. Which should you have taken?

If you guessed the top performer, who could fault you? Although fund companies constantly remind us that past performance is no guarantee of future success, they also pelt us with advertisements touting their funds' returns.

ILLUSTRATION: GEORGIA LEIGH MCDONALD

Meanwhile, the financial press routinely lionizes fund managers who beat the market averages. And that's all to be expected. After all, if we can't use past performance figures to gauge funds, what can we use? At the end of the day, performance is all we really care about.

The problem, as numerous academic studies have shown, is that past performance is at best a tenuous predictor of future success, particularly when we reference short-term track records.

Funds that produce outsized returns in any one quarter usually do so because their assets are heavily concentrated in one "hot" sector of the market—whether it's gold or semiconductors or real estate—rather than a diversified portfolio of stocks. When that hot sector cools, so does the fund.

So it went with our examples from 1995. That year's top performer, Alger Capital Appreciation, posted a stunning total return of 78.6 percent as manager David Alger stuffed 75 percent of the fund's assets into semiconductor and software stocks and other segments of the red-hot high-tech sector.

In 1996, when Alger began to diversify out of high-tech stocks, the fund posted a total return of just 13.8 percent, well below the 22.96 percent return of the Standard & Poor's 500 stock index.

By comparison, the stalwart Common Sense Growth Fund, a solidly middle-of-the-road performer for the past five years (it earned 32.8 percent in 1995) posted an unspectacular but respectable gain of 18.9 percent in 1996.

The upshot: You would have earned an additional $510 last year if you had chosen the Common Sense fund for your free gift rather than the Alger Capital Appreciation fund. And you'd still be ahead this year: Common Sense Growth outperformed Alger Capital Appreciation during the first six months of 1997, with a total return of 15.9 percent versus 14.1 percent.

Does this mean you should ignore past performance data in selecting a mutual fund? No. But it does mean that you should be wary of how you use that information.

William Goetzmann, then an assistant professor of finance at Columbia University in New York City, and Roger Ibbotson, president of the research firm Ibbotson Associates in Chicago, studied two-year performance records of mutual funds for their predictive value. In a 1994 paper, they reported that the odds of picking a winner based on those results were about 60-40 in favor of success.

The conclusion of Goetzmann and Ibbotson: Try to buy funds that finish in the top 25 percent of all similar funds for a given period but not necessarily the absolute top performer.

Here are some other tips for using historical data to select mutual funds:

Give short shrift to short-term data.

The shorter the period, academics and finance experts generally agree, the less reliable past performance is as an indicator of future success. Of the five top-performing stock funds for 1995, for example, only two finished in the top 20 percent of their peer group in 1996. Two more finished at the very bottom, actually losing money for their investors, and another finished in the lowest 40 percent.

Shun losers aggressively.

While some research has shown that consistently good performers continue to do well at a better rate than marginal performers, it also has shown a much stronger predictive value for consistently bad performers. "Lousy performance in the past is indicative of lousy performance in the future," says Craig Israelsen, an associate professor of consumer and family economics at the University of Missouri.

Be a contrarian.

When you're looking at short-term performance, consider funds that have underperformed the market recently but have outstanding long-term records, says Peggy Ruhlin, a CPA and certified financial planner with Budros & Ruhlin in Columbus, Ohio. "What you may find," she says, "is a fantastic fund manager whose style of investing may be out of favor at present. It's like bargain shopping; you're looking for designer goods on sale."

The risk, of course, is that you throw good money after bad. Be careful.

Know the manager.

If the fund has recently changed managers, it's a whole new ballgame and past performance means almost nothing.

If you follow all these rules, you still can't guarantee that the funds you pick will be winners, but you likely will improve your odds. NB

Randy Myers, formerly a writer and editor for Dow Jones & Company, Inc., is a financial writer in Dover, Pa.

Heeding The Call For Phone Efficiency

Today's technologies are providing solutions for small businesses struggling to handle a growing volume and range of communications.

By Tim McCollum

Shari Carter found herself continually swamped with phone messages, so she got rid of her answering machine. She says she hasn't missed a message since.

The machine just wasn't doing the job for Carter's firm, CompAnalysis Inc. of Oakland, Calif., which provides employee-compensation consulting for employers. Although Carter, the firm's managing principal, had hired six employees to serve her growing number of clients, she and her staff found themselves relegated to standing around the answering machine and scribbling down client messages. It was a time-consuming, error-prone, and indiscreet process.

To improve the handling of an expanding number of incoming calls and messages, Carter chose an automated voice-mail system called VoysConnect, from Voysys Corp. of Fremont, Calif. Now, when clients call, an electronic attendant answers the phone, offers a list of employee extensions, and routes the calls as requested. If the employee doesn't answer, the caller can leave a private message.

"Our clients were expecting us to have voice mail," says Carter. "They were annoyed when they had to leave a long message on the machine that someone else might hear. Much of what we do is highly confidential."

Moreover, Carter and her staff can retrieve their messages not only from their office phones but also remotely from a cellular or any other type of phone. "I can call for my messages—and only my messages—from the car," she says. "That saves me time."

Building A Better Front Door

When an entrepreneurial firm outgrows its phone system, the company has to upgrade quickly. "The telephone is the front door" of a small business, says telecommunications analyst Jeffrey Kagan of Kagan Telecom Associates in Atlanta. "It's the first impression that a customer gets. It's got to be reliable."

Making a good first impression has become easier thanks to today's telephone technologies, which provide great efficiency and flexibility in handling incoming calls and messages.

PHOTO: GLINDA SUE SCOTT

With voice mail, *handling a growing number of incoming calls and messages is no longer a problem for CompAnalysis Inc.'s Shari Carter, center, and consultants at the firm, including Karen M. Sindelar, left, and Jenny Calleros.*

The $1,995 VoysConnect system adopted by CompAnalysis is typical of the small-business-friendly systems on the market. It consists of a small hardware device that connects CompAnalysis' incoming phone line to each employee's phone extension.

Once the system was plugged in, Carter and her staff set up the automated attendant and the voice-mail messages quickly and easily from a phone keypad.

Unlike some automated phone systems, VoysConnect doesn't require the purchase of proprietary phones for use with the phone system. Thus, if Carter decides that she should add an extension, she can attach any phone to the system and assign it a mailbox.

Linking With Computers

In Seattle, Paralon Technologies Inc., which sells remote-access equipment for computer networks, has taken a step further by tying together its phone and computer networks. Paralon's solution for telephone-call problems stemming from the firm's growth is a technology known as computer-telephony.

Paralon's automated attendant works in concert with employees' personal computers, using a software-based system called CallXpressNT, available from Applied Voice Technology Inc. of Kirkland, Wash. The system links Paralon's existing phone system to its computer network, which is based on the Windows NT operating system.

With CallXpressNT, incoming calls are automatically routed to the correct employee or department when callers choose from a menu or enter a particular extension. When the employee picks up the receiver, his or her computer displays any information on the caller that Paralon employees have stored in the company's computer network.

During the call, the employee can refer to this information, which might include the caller's company name, address, and purchase history as well as notes about previous conversations.

The system also enables employees to view on their computer screens incoming faxes and voice-mail and electronic-mail messages.

In all, Paralon has found CallXpressNT to be a big improvement over the previous system, which required Paralon's 15 employees to answer calls as they were re-

ceived and route them manually to the right person.

The basic CallXpressNT system costs $9,000 for up to 100 users; additional modules that add capabilities such as fax broadcasting are available at extra cost.

"We always look for technology to help our company," says Robert Manougian, Paralon's vice president of operations. "One of the things I was looking for was to integrate the voice-mail system with our e-mail so we could get messages in one place. CallXpressNT gave us a capability to do that. It's been tremendously effective for us."

PHOTO: ©DOUG WILSON—BLACK STAR

A software-based system *links the phone and computer networks at Paralon Technologies Inc., says Robert Manougian, vice president of operations, holding a CallXpressNT box.*

Managing Messages

The universal in-box concept—one depository for all incoming messages, much like an in-box for paperwork—underlies the growing interest in computer-telephony systems among small businesses, according to Robert Straus, a telecommunications analyst at IDC/Link, a New York City firm specializing in technology-market research.

On the basis of IDC/Link's research, Straus estimates that one-third of small businesses are interested in such technology to help them manage a plethora of messages from computers, faxes, pagers, and wired as well as cellular phones.

"Small businesses are receiving communications in an increasing number of ways," Straus says. "The amount of information that they're getting is increasing as well. Computer-telephony really increases the efficiency and productivity of employees and managers. And it improves response times and helps to ensure that people aren't forgetting about these different messages."

Computer-telephony also allows a company to tie its phone system to computer applications such as contact managers, customer databases, and word-processing and spreadsheet programs, says Straus. That gives employees all the tools they need to work with a cus-

Local Competition Is Still On Hold

You probably haven't received telemarketing calls to persuade you to switch local telephone companies. That's because the overwhelming majority of consumers still have only one provider of local phone service available to them.

Businesses and individuals were expected to benefit from lower prices, new and better service options, and a choice of local-service providers following enactment of the Telecommunications Act of 1996, the first major revision of U.S. communications laws since 1934.

But those benefits have not been realized because of the ongoing legal and regulatory wrangling among the Federal Communications Commission (FCC), state utility commissions, the courts, and local and long-distance phone companies.

"This is a very-high-stakes poker game," says Jeffrey Kagan of Kagan Telecom Associates, a telecommunications consulting firm in Atlanta. "One percentage point of market share is worth billions [of dollars]. The local and long-distance companies aren't willing to leave a dime on the table. They are attacking every decision that the FCC makes."

Guidelines Overboard

The FCC's first setback in establishing rules under the new law came in July, when the 8th U.S. Circuit Court of Appeals in St. Louis threw out the commission's guidelines for wholesale pricing of local service. The lawsuit was initiated by the Iowa Utilities Board, a state regulatory authority.

The guidelines would have required local phone companies to sell capacity on their networks to competitors at a 17 to 22 percent discount from the retail rate they charge business and residential customers. The competitors, in turn, would resell service using that capacity.

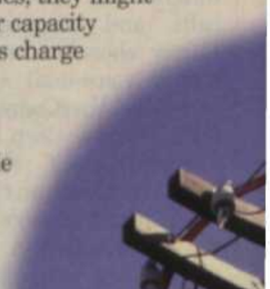
The appeals court ruled that each state utility commission may set its own discount rate. In a statement, FCC Chairman Reed Hundt said the commission would petition the Supreme Court to overturn the appeals court's ruling, which he called "wholly inconsistent with the mandate and intent of Congress."

Local telephone companies such as Ameritech, Bell Atlantic, BellSouth, GTE, SBC Communications, and US West supported the Iowa board's suit, arguing that the FCC's pricing guidelines would have required them to sell capacity to competitors at a loss.

The competitors, including long-distance companies AT&T, MCI, and Sprint, argued to the appeals court that without uniform national rules, they might have to pay more for capacity than local companies charge their customers.

Another Battle Ahead

The next major battle is likely to be over the FCC's universal-service rules, issued in May. These rules, which took effect in July, lower the per-minute access fees that long-distance carriers must pay the local phone company at each end of a long-distance call.



The rules also increase the monthly federal charges applied to businesses and individuals with more than one phone line, though the charge for a primary line remains $4.03 a month. The current rate for each additional line is $6.13 a month. Beginning in January, it will be $10.36 per

tomer. And it ensures that the callers are talking to the person who can best help them.

"Just having the auto attendant has been helpful," says Manougian. "In addition to routing [callers] to the right person, there are so many things you can do through a messaging system. In spite of the frustration that people on the other end may feel, it's much more advantageous to leave a detailed message on voice mail than to leave a cryptic note on a piece of paper."

As Paralon discovered, computer-telephony has become more affordable since it was introduced in the mid-1980s, says Sachin Shaw, assistant editor of *CTI News*, an industry newsletter. Many such systems, including CallXpressNT, build on the computer-telephony standards that Microsoft Corp. incorporated in its Windows 95 and Windows NT operating systems.

PHOTO: ©SAL DIMARCO—BLACK STAR

An automated system *from the local phone company was the hassle-free communications choice made by Bill Grauer of Pendergast Safety Equipment Co. in Philadelphia.*

Dataquest, a market-research firm in San Jose, Calif., forecasts that annual computer-telephony sales to small businesses and home offices will top $2 billion by 1999, up from about $160 million in 1995.

A No-Purchase Option

No matter how low the price of computer-telephony systems, however, the technology may offer more capabilities—and entail more bother—than many small companies want to manage. Some firms will always prefer to avoid buying computer and telecommunications hardware and software and acquiring the expertise to set it up and maintain it. Instead, they will choose to pay another party, such as the phone company, to assume their phone-system headaches.

That's what Pendergast Safety Equipment Co. in Philadelphia did. For several years, the company has used a service called Centrex from its local phone company, Bell Atlantic.

Centrex works like an in-house automated phone system, with features such

line, an increase of $4.23.

The increased fees would accrue to the congressionally mandated universal-service fund. The fund currently subsidizes phone service in mostly rural, high-cost areas; the additional money would be used to subsidize Internet access for schools, libraries, and hospitals.

The FCC estimates that the lower access charges established by its new service rules will save average small businesses about $24 a month on their long-distance bills. Companies that make large numbers of long-distance calls will save more, the commission says.

The service rules point out, however, that small businesses that make primarily local calls and need additional phone lines for faxes, modems, and credit-card verification face a net increase in their phone bills from the fee increase for additional lines.

"These rules are going to put the vast amount of the burden on small businesses," says telecommunications attorney Brian Moir of Moir & Hardman in Washington, D.C. Moir's firm represents the International Communications Association, an organization of businesses that use telecommunications. "Businesses are being forced to pay the lion's share [for universal service]. That's contrary to what was in the legislation," he says.

Moreover, Moir says, large businesses will have greater leverage than small firms in negotiating deals with providers to minimize the effect of the higher charges for additional lines.

Dwight L. Allen Jr., associate director of the Deloitte & Touche Consulting Group's telecommunications practice, expects the increase in the multiple-line charge to be challenged in court by local phone companies, consumer groups, and lawmakers.

He adds that much of the blame for the delays in bringing about local competition can be laid on the Telecommunications Act itself, which left rule-making details to the FCC and the states. "The way the act was written virtually assures that the courts will end up dealing with it," says Allen.

Turnover Complications

Further complicating matters, the FCC will have four new commissioners. Chairman Hundt announced his resignation in June. The terms of Rachelle Chong and James Quello expire this year, and they have not been reappointed by President Clinton. One seat is vacant. Nominations for two of the seats have been made, but no confirmation hearings have been scheduled. Commissioner Susan Ness remains.

Meanwhile, the FCC and the Senate Commerce Committee have announced plans to set up task forces to investigate barriers delaying local phone competition.

Industry analysts are divided about when small companies will be able to choose their local-service provider. Resellers have begun offering service in various cities, including New York; Seattle; Portland, Ore.; and Grand Rapids, Mich., but their share of the market has been minuscule. Kagan forecasts that long-distance companies will begin their local push by the end of this year.

But Deloitte & Touche's Allen says that because of continued legal and regulatory delays, it might be two years before many customers see widespread local competition.

"In terms of the benefits, I think that's going to be something that's going to hit differently for different types of customers in different areas," says Allen. "For some it will be awhile, and for some it will be a lot sooner."

as conference calling and voice mail. But there is no equipment to buy, set up, and maintain. The system, except for the company's phones, exists solely on the Bell Atlantic telephone network.

Bill Grauer, Pendergast's vice president, says Centrex made sense for his company because the service offers the flexibility of adding phones when needed and routing calls among them—even to phones at remote locations.

That capability came in particularly handy in May, when construction crews at nearby Philadelphia International Airport accidentally dug into Bell Atlantic phone lines, knocking out Pendergast's phone service.

Grauer quickly called Bell Atlantic with his cellular phone and requested that Pendergast's calls be redirected to the home of one of his employees. "I think we missed only about half an hour of calls," says Grauer. "It just doesn't get better than that."

Yet the main benefits of the Centrex service, Grauer says, are those that help the company's daily operations. Although the service can answer calls and take voice messages, Grauer insists that all incoming calls be answered personally. The system does make it easier, however, for employees to answer from any location in Pendergast's building.

A feature that Grauer particularly likes is three-way conference calling, which comes in handy when the company needs to work out a problem between a manufacturer of one of Pendergast's safety products and a customer who is installing the product.

Grauer now can work out such problems with a conference call in which he, the customer, and the manufacturer discuss the matter.

"It really gives us customer-service credibility," Grauer says. "You don't solve the problem every time, but eight out of 10 times the technician can solve it right over the phone, and the customer is really wowed. The customer might have called somebody else, and they would have to get back to them. With this, he knows he's dealing with a quality outfit."

Small-Business Services

Services such as Centrex are part of an array of possibilities that telephone companies now offer small businesses. In recent years, local phone companies have come out with small-business services such as voice mail, paging, priority calling, and the ability to add lines temporarily for incoming calls during peak hours.

Long-distance companies also offer small-business services. AT&T.All, a service offered by AT&T, combines long-distance, toll-free, wireless, and calling-card calls on one bill, which can be delivered over the Internet on request.

MCI's new networkMCI Net Conferencing service lets participants in a teleconference view and collaborate on documents on their PCs through the use of modems and special software.

"The small-business user is the power user of the future."

—Telecommunications Analyst Jeffrey Kagan

Sprint's Fridays Free program allows small companies to make free long-distance calls within the United States on Fridays.

Small firms can use the telephone network as their universal in-box through services such as Personal Office from Cable & Wireless Inc. in Vienna, Va. Personal Office allows retrieval of voice-mail messages as well as faxes and e-mail from any phone. Callers use a special calling card to dial a toll-free number and listen to voice messages as they would with any voice-mail service and to route faxes and e-mail messages to a nearby fax machine.

Services such as this can be a huge plus for businesses with employees working at remote locations. Take Housley Communications Inc. of Fort Worth, Texas. Housley, which installs underground cables and wires for telephone companies, has issued calling cards to 40 supervisors and field managers at construction sites in seven Southwestern states. Stacy Elms, fleet-services manager, says this helps Housley keep in constant contact with its employees in the field.

"Much of the time, those people are out of reach," Elms says. "But I can drop a voice mail into a guy's box. It's allowed us to shorten the amount of time it takes to get things done. It makes us a lot more flexible."

In addition to messaging, Personal Office allows Elms to hold conference calls among people at work sites.

Telecommunications analyst Kagan says small businesses will continue to be a key market for telephone companies, particularly when widespread competition comes to the local-phone marketplace.

"The small-business user is the power user of the future," Kagan says. "All the service offerings that [phone companies] come out with will be aimed at helping the small business do business." NB

OPERATING COSTS

Postal Increases: Smaller Is Better

Across-the-board rate increases would average 4.5 percent under the Postal Service's proposal.

By Steve Bates

On July 1, when the U.S. Postal Service announced that it wanted to raise postal rates an average of 4.5 percent next year, many business people applauded the agency for its fiscal restraint—particularly for proposing that the cost of a first-class stamp go up only a penny, to 33 cents.

In addition, the Postal Service proposed that Americans be able to mail some bill payments for only 30 cents, and it pledged not to seek new across-the-board rate increases for two years.

The government-sponsored postal corporation said the revenues raised by the new rates should wipe out its potential fiscal 1998 budget deficit of more than $1 billion and help pay off its long-term debt.

But since the initial relief expressed by many business leaders who had expected the Postal Service to seek much higher rate increases, some pockets of criticism have emerged.

PHOTO: T. MICHAEL KEZA

If approved, *rate increases would be "less than half the rate of inflation," says Postmaster General Marvin Runyon.*

The Postal Service is running as much as $1 billion ahead of revenue projections for the current budget year, prompting some business people to question whether the agency needs to impose higher rates next May, when the independent U.S. Postal Rate Commission is expected to complete its review of the plans. Some mailers contend that there should be no rate increases until 1999.

Meanwhile, the Postal Service is proposing significant changes in the accounting methodologies on which it bases rate proposals, and some mailers say that while these revisions might have modest effects in the short term, they could lead to much larger rate increases in the next decade.

The Postal Service is also coming under renewed fire for competing with private businesses for some services. Owners of stores such as Mail Boxes Etc. and Parcel Plus, which wrap parcels in addition to shipping them, are asking the Postal Rate Commission to keep the Postal Service out of the wrapping business. Some critics want the Postal Service to curb or stop offering other nontraditional post office business, such as selling ties and mugs at postal boutiques.

Moreover, some members of Congress are pressuring the Postal Service to halt its plans to expand an overseas-package-delivery operation that competes head-on with United Parcel Service and other companies.

Yet such distractions are almost the norm these days for the Postal Service and its aggressive CEO, Marvin Runyon, who makes no apologies for battling private businesses for mail volume and revenue. Runyon says he will continue to expand the services that his agency provides—as long as the public uses them.

He says the success of the Postal Service's many operations is reflected in the proposals for new rates: "The average household would pay less than 20 cents more per month," he said when the rate proposals were announced. The average rate increase of 4.5 percent is "less than half the rate of inflation" over the period since the previous round of rate increases, he added. "And it includes an assortment of new discounts, improvements, and price cuts."

The Postal Service has not raised its rates across the board since January 1995, though it implemented a reclassification of some mail categories' rates in July 1996 and increased some fees, such as those for post office boxes, this past June.

The initial reaction to the proposed new rates from the business community has been overwhelmingly favorable. "This is a good proposal for America's small businesses as well as for the people who depend on them," says Donna Hanbery, executive director of the Alliance of Independent Store Owners and Professionals, whose members rely heavily on advertising mail.

Gains For Volume Mailers

The impact on businesses depends on which classes of mail they use the most. "Large and first-class mailers have to be pleased," says Tim May, an attorney with the Washington, D.C., law firm Patton Boggs, LLP, who represents mail-order companies.

Bulk advertising mail—particularly when it is bar-coded, presorted, and destined for every address in a community—would continue to receive large discounts under the proposed rates. Newspapers and magazines would be subject to a wide range of rate increases depending on the degree of mail preparation and a number of other factors.

Priority packages—a highly profitable operation for the Postal Service—would rise 20 cents, to $3.20, for a parcel up to 2 pounds, while some rates would decline from current levels.

Ironically, the increase in the cost of a first-class stamp—historically a focus of debate over rate changes—is one of the

least controversial elements of the current proposal. Though there is no guarantee that the Postal Rate Commission will agree with the plan, no one is proposing to change the stamp rate by a fraction of a cent, so the choice is 32 or 33 cents.

After that topic, however, things get sticky. "The complexity of this case is absolutely staggering," says Arthur Sackler, a vice president with media and entertainment giant Time Warner Inc. in Washington. There are about 4,000 different postal rates, largely because of the many variables such as type of item, size, weight, and degree of automation.

The hundreds of pages of documents submitted by the Postal Service to the rate commission include some relatively arcane but significant accounting changes. They deal with how the Postal Service determines its direct costs for providing specific products and services and how it calculates how much to add to the prices of products and services to cover overhead.

Some experts say the Postal Service is seeking to apply overhead costs unevenly, pushing up prices disproportionately for some services to customers who are least likely to take their business elsewhere.

Reviewing The Cost Structure

"It's nice that the [rate] increases are smaller than anticipated; it's unsettling that there are new costing methodologies," says David Straus, an attorney who represents American Business Press, an association of business-to-business periodicals. "The new systems could well mean that the increases in the future would be larger."

John Ward, the Postal Service's vice president for marketing services, says the agency's costing systems "are constantly being reviewed." He says the Postal Service works with independent economists to develop rate requests.

In large part because of the complexity of the case and the number of organizations that have asked to be heard in it, the rate commission likely will need the full 10 months it has under federal law to hold hearings and issue recommendations, says Edward Gleiman, chairman of the panel.

Proposed Changes In Selected Postal Rates

Service/Item	Current	Proposed	Change
First-Class Letter	$ 0.32	$ 0.33	3.1%
First-Class Presorted	0.295	0.31	5.1%
Bill Payment	0.32	0.30	-6.3%
Postcard	0.20	0.21	5.0%
Priority Package	3.00	3.20	6.7%
Express Mail: Half-Pound	10.75	11.25	4.7%
Express Mail: 2 Pounds	15.00	14.95	-0.3%

U.S. Mail

SOURCE: U.S. POSTAL SERVICE

Although the commission's recommendations usually are accepted by the Postal Service Board of Governors, the agency's policy-setting body, the governors can vote not to accept them.

One of the Postal Service's most strident critics, the Coalition to Make Our First Class Mail First Class, says even the 33-cent-stamp proposal should be rejected. "We haven't seen the justification," says Scott Macdonald, a spokesman for the group, which is a nonprofit consumer organization representing businesses and associations.

Others say the Postal Service will continue to lose business to electronic communications such as faxes and electronic mail, which will curb revenue and justify rate increases sooner or later. "The Postal Service has done a pretty good job over the last couple of years holding down costs," says Time Warner's Sackler. "Maybe they'll be in a position to delay [the increases] for several months or longer" after the rate commission completes its review next year, he adds.

At press time, the Postal Service had made no commitment to delay rate changes.

Interest On Capitol Hill

The Postal Service has been dealing not only with the rate commission but also with Congress. A bill introduced in the House this year would give the Postal Service more flexibility in setting rates but would cap increases based on the inflation rate. Another measure would bar new nontraditional postal services such as package wrapping. And an amendment to an appropriations bill would halt—for at least a year—expansion of the Postal Service's Global Package Link overseas-delivery system.

However, the basic rate case before the rate commission will have the greatest impact on the Postal Service, which has an annual budget approaching $60 billion.

Bob McLean, executive director of the Mailers Council, an umbrella group representing companies and mailing groups that produce more than half of the nation's domestic mail, says the Postal Service should be given high marks for proposing modest rate changes. "No one wants double-digit increases," McLean says. "They are listening to the mailers." NB

New Services, Big Changes In The Works

The following are highlights of the Postal Service's requests:

- If approved and implemented about mid-1998, the increase in the price of a first-class stamp from 32 cents to 33 cents would be the first such rise in 3½ years. At about 3.1 percent, the increase would be about one-third the rate of inflation since the last increase.
- Participating businesses could let customers prepay the postage for a year's worth of bill-paying envelopes at 30 cents per envelope, a saving of 3 cents a month if the first-class stamp rises to 33 cents.
- Continuing a recent trend, advertising and bulk-parcel mailers could receive deep discounts for automating mail, sorting it by carrier route, and taking it to postal centers close to where it will be delivered.
- The Postal Service would establish a delivery-confirmation service for Priority Mail, standard parcel post, and bound printed matter. Mailers could call a toll-free number or use the Internet to determine the date of delivery.
- Some special services would rise significantly in cost: Certified mail would increase 15 percent; insurance costs would rise on average 17.3 percent; fees for registered mail would go up on average 51 percent; and return-receipt costs would increase as much as 46 percent.
- Postal officials pledge not to request an increase in the cost of a first-class stamp for at least two years after the proposed increase takes effect.

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Jack Wilson

President, JWA Video, Inc.

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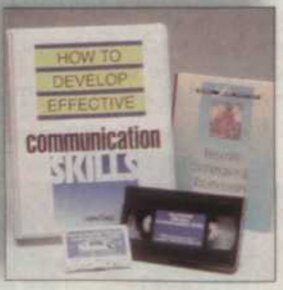

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THE BASICS OF PROFITABLE CUSTOMER SERVICE highlights how caring for and listening to customers keeps them coming.
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FINANCE

Leaving No Stone Unturned

Creative entrepreneurs can find roads less traveled to obtain funding for their companies.

By Sharon Nelton

Banks, venture capitalists, nonbank lenders, private investors—these are all well-known sources of capital for small businesses. But some entrepreneurs put on their creative caps and turn up more-unusual avenues to funding.

One such entrepreneur, James W. Morentz, calls this "alternative financing." And he's a master at getting it.

Morentz is CEO of Essential Technologies, Inc., which makes software for environmental, health, and safety applications. The company, based in Rockville, Md., was formed in July as the result of a merger between EIS International Corp., a business Morentz founded, and its top competitor, EnviroMetrics Software, Inc., based in New Castle, Del. Essential Technologies has about 115 employees and expects to do close to $15 million in sales this year when combined with the earlier companies' revenues.

EIS International was a 1996 honoree in the Blue Chip Enterprise Initiative, a program that recognizes companies that have dealt with significant challenges. An annual competition, it is sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's syndicated morning business-news television program.

Morentz is familiar with the stages of financing that many entrepreneurs go through, from borrowing funds on a credit card—as EIS International, which was founded in 1975, did when it was young—to obtaining $1.5 million in venture capital four years ago.

"One of the things that we were able to do with the venture money was to do a better job of sales and marketing, look a little bigger, be able to take a longer-term view of building a company rather than just meeting payroll," says Morentz.

This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.

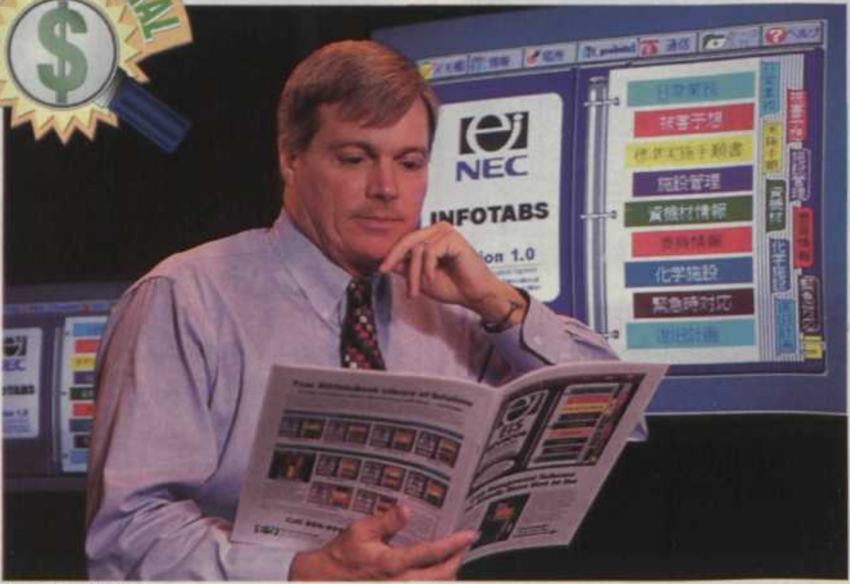

PHOTO: T. MICHAEL KEZA

Upfront payments *for exclusive selling rights in foreign countries provide financing for James W. Morentz's software company, Essential Technologies, Inc.*

Creating Opportunity

The venture capital also gave EIS International an opportunity to push an international program, which led the company to obtain financing in a particularly creative way: through upfront payments from foreign resellers for the exclusive rights to sell the company's software in a given country.

EIS International signed up resellers in more than 15 countries, including Kuwait, Israel, the United Kingdom, and Denmark. This summer, it signed Samsung Corp., South Korea's largest electronics manufacturer.

Resellers in smaller countries such as Holland have paid around $100,000 for territorial rights, but in 1995, NEC—a huge company with a huge marketplace in Japan—paid $1 million.

"They recognized that this was not just to purchase the territory, but it was purchasing our commitment to them, and it was purchasing, in many ways, the product-development standards and resources that NEC would be comfortable with," says Morentz. "That was money invested in us and that we invested in turn in improving everything from our quality control—which was essential to NEC—to just being able to put somebody on a plane and fly them to Japan anytime that somebody needed it."

Morentz had seen the idea of exclusivity payments work for a computer-hardware product and decided to try it with software. Working with an international consulting company—Global Business Access Ltd., based in Washington, D.C.—he lined up a couple of smaller deals.

"By the time NEC came along, we had an existing contract that we were able to say, 'This is the way we deal internationally,'" says Morentz. "Then it was really just a matter of negotiating the amount." NEC, like the other resellers, pays a minimum annual fee to maintain exclusivity rights—"sort of a prepayment of royalties," says Morentz.

NEC sells systems-integration, hardware, and other products around the EIS software, and Morentz says that NEC was pleased enough with its relationship that it bought a small equity stake in the newly merged company.

Speeding Development

In what Morentz calls "another unusual form of financing" for Essential Technologies, NEC is putting software en-

gineers on-site at his company to help speed development of next-generation products. (The number of NEC engineers on hand varies, but there were seven in one recent week.) The benefit to Essential Technologies, says Morentz, is that it does not have to hire additional engineers to hasten development; the benefit to NEC is that it pays a lower royalty when its engineers are at Essential Technologies.

Negotiating upfront exclusivity payments is not for every company. "If you have a product in demand, especially where there is not very much competition, then an exclusivity payment has not been that hard to extract from people," says Morentz. No one is going to pay upfront for exclusive rights to the 25th word-processing program, he says. "But in our business, in crisis management, and increasingly in environmental health and safety, we have something that no one else has."

> "Look at every opportunity where you can leverage somebody else's expense to save your costs."
> —James W. Morentz, Essential Technologies, Inc.

Even if you have the right product, it takes time and money to work through the process. EIS's negotiations with NEC spanned three months, which in Japan is considered a short duration for such talks. There were 20 face-to-face meetings between NEC's people and EIS's people or its consultants. The shortest of those meetings, says Morentz, ran from 8:30 a.m. to midnight.

Morentz, who believes a CEO's personal involvement is vital to negotiations, attended some of the meetings. He went to Japan twice, and he says company employees or consultants were in Japan at least 30 of the 90 days of negotiations.

Morentz figures that his company paid Global Business Access around $100,000 for its assistance in landing the international agreements before EIS created its own international division. He says the consulting firm provided "invaluable" contacts and saved his company from cultural mistakes that could sink a deal.

"Getting outside help to understand the culture is very important," he says.

If the kind of international deals that Morentz worked out are not appropriate for your company, there is still a lesson here: Any business owner can search all the angles to turn up funding. You don't always have to trot down to the bank.

"Alternative financing" doesn't necessarily mean cash. It can be an equivalent, such as an in-kind service. It can even mean not having to spend money you might otherwise have had to spend.

"Look at every opportunity where you can leverage somebody else's expense to save your costs," Morentz advises. This could mean customers, vendors, resellers, or distributors, or any company that has a relationship with your company.

"When working with some of the bigger companies," says Morentz, "we have no qualms about going to them and saying, 'You have a booth at this particular conference. I want to send somebody with a computer to sit in that booth.'"

About half the companies might say yes, and the other half will think it's inappropriate. But Morentz says he simply keeps in mind that "there are big guys out there whose overhead is a thousand times what our entire revenue is. We're going to get lost in their overhead expenses, so there's no reason not to be very aggressive about it."

You can even "borrow" an expert. Morentz says he might call a company and say, "We have a meeting coming up where I need a really good expert in client-server-hardware architecture. Can you give me one for this meeting who will just come and sit there and answer questions?"

Morentz believes that the recent merger that formed Essential Technologies represents "the best form of alternative financing." He expects the new company to be the dominant force in its market, and he notes that it won't have to spend the money that the two companies spent on competing with each other. Instead, that money can be used on development, sales, and marketing.

Correction

"One Giant Step Toward A Loan," our Finding Capital story in August, mistakenly stated that the U.S. Small Business Administration's loan guarantees do not apply to lines of credit. An SBA program called CAPLines is aimed at helping small businesses meet short-term and cyclical working-capital needs. For further information, call your local SBA office or visit the agency's World Wide Web site at *http://www.sbaonline.sba.gov.* NB

TAXES

When The IRS Comes To Check

The agency's effort to sharpen its audits in certain industries can whipsaw small firms, but companies have shown they can prevail.

By Joan Pryde

PHOTO: GLINDA SUE SCOTT

His fight *to disprove the IRS's contention that he understated the revenue from his coin-laundry business took Anatole Zelkin three years and cost him $20,000, but he won in the end.*

Anatole Zelkin says he'll never forget the day an Internal Revenue Service auditor came into his Super Bright Laundry in San Francisco, washed a load of clothes, and from that one visit calculated how much water Zelkin's business used. Based on that water-usage calculation, the agent figured that Zelkin had vastly understated his income and owed $150,000 in back taxes for the previous three years.

Zelkin didn't take the assessment lying down. "I come from Russia, and I know what it means to fight the bureaucracy," he says. "It takes your money, your patience, and your time."

Zelkin has since left the laundry business and now sells small appliances. He won his case in 1995 after spending three years and $20,000 fighting the IRS, he says.

And Super Bright wasn't an isolated case. Owners of dozens of other coin-operated laundries tangled with the IRS in the early and mid-1990s. The industry's experience illustrates what has worked—and what has not—in the IRS's attempts to inject consistency into its audit methods through its Market Segment Specialization Program, or MSSP.

Launched in 1992, the MSSP was designed to improve the quality of examinations by publishing audit guides and to boost tax-law compliance. The MSSP targeted 100 industries and professions, but audit guides for only 36 of them have been released to the public. (See "How To Obtain An Audit Guide," on Page 50.) The IRS says 13 more guides are in the final stages of editing and could be released soon. The agency also says it welcomes dialogues with industry representatives when problems arise.

Who's On The List

Peter Scott, a partner in the Washington, D.C., office of the Coopers & Lybrand accounting firm, says the industries on the MSSP list—from coin laundries to service stations to funeral homes—typically consist of small businesses that conduct many of their transactions in cash. "Those businesses have a historically higher level of noncompliance" with the tax laws, he says.

Tax professionals generally believe that businesses targeted for the MSSP program are more likely to undergo an IRS audit. Says Seymour Goldberg, a former IRS official and now a tax attorney in Garden City, N.Y.: "The chances of an audit are great if you're in a market-segment area, and those audits will be more in-depth."

The IRS, however, says the program was not designed to "get" certain types of businesses. "I try to avoid the term 'MSSP audit' because there really is no such thing," says Raymond Smith, the IRS's director of market segment and specialization. Instead, he says, if you're in an industry on the MSSP list, your income-tax return should get special treatment only if it comes up for auditing through the normal sorting process.

The chance of being audited is relatively small. In 1996, the IRS audited 4 percent of returns filed by individuals, 2.3 percent of corporate returns, and less than 1 percent of returns filed by partnerships.

Returns selected for auditing and identified as being from MSSP businesses should be handled in one of two ways, Smith says. Either the business should be examined by an agent who is selected because he or she knows a lot about that industry, or the audit should be conducted by someone who at least has studied the audit guide developed for the industry.

Background Reading

If you find your industry on the list for published audit guides, tax specialists suggest, you should get the guide and read it or make sure your accountant or attorney has read it. If you are called for an audit, try to ensure that the IRS agent you're dealing with is experienced.

Mike Killfoil, a former IRS official and now a senior manager in the Houston of-

fice of the Ernst & Young accounting firm, says, "If I were dealing with a client in one of those [MSSP] areas, I would ask the revenue agent, 'Have you read the guidelines in the area?'" and determine the agent's depth of background in the industry.

But with fewer than 40 percent of the guides released to the general public, one for your industry may not be available. Says Killfoil: "The number of guidelines that have been put out is not as great as it probably should have been or could have been."

Quality Questions

Are the finished guides worth the wait? San Francisco tax attorney Frederick Daily says he has studied about a dozen audit guides and found them to be "pretty good. [The authors] have gone outside and talked to people in the market segment areas." Daily knows plenty about one of those areas—attorneys—and says that guide "gives a very good explanation of the way things are done financially in law offices."

But that doesn't mean the guides are flawless. Laundry owners traced the problems with their audits to faults in an audit guide that the IRS had drafted and circulated for internal use but had not released to the public.

Richard Weisinger, a tax accountant in Glendale, Calif., who helped Zelkin and many other coin-laundry owners fight the IRS, says he obtained a copy of the guide through a Freedom of Information Act request and found it riddled with errors.

The guide recommended that auditors determine a coin-laundry owner's income by calculating the amount of water the business used. But that method overlooked several variables, such as whether the laundry's machines were top-loaders or front-loaders, whether customers typically washed full or partial loads, the type of clothes washed and detergent used, and even how many times the business's toilet was being flushed each day.

"We were very pleased we could sit down at the table" with the IRS.

—Dr. Bruce Little, American Veterinary Medical Association

At the IRS's invitation, representatives of the Coin Laundry Association, a trade group based in Downers Grove, Ill., sat down with agency officials and explained the audit guide's perceived flaws. IRS officials agreed that the guide needed work but did not say how they would revise it.

Today, association representatives say the furor in the industry has diminished. Because their members are no longer complaining about MSSP audits, they conclude that the revised audit guide, though still not published, was changed to reflect their concerns.

In other instances, the guides have caused considerable grumbling. The bed-and-breakfast industry, while not challenging its guide, has complained that the guide is overly strict in its standards for determining whether various rooms in a B&B should be considered devoted to business purposes or for personal use.

Pat Hardy, co-executive director of the Professional Association of Innkeepers International in Santa Barbara, Calif., says the audit guide does not take into account the bed-and-breakfast owners' legitimate need to share space with their guests.

For example, a B&B's kitchen could not be counted toward business use unless it was off-limits to the innkeeper for personal use. Permitting visiting relatives to use the guest rooms free of charge—even infrequently—would cause those rooms to be deemed ineligible for a business deduction.

Starting A Dialogue

If you are having problems with the IRS and think other firms in your industry are, too, it may be time to get your industry's trade association involved in negotiating with IRS officials. The veterinary profession, for example, did so—successfully.

In 1994, the American Veterinary

How To Obtain An Audit Guide

The following tax-audit guides under the Market Segment Specialization Program, or MSSP, can be purchased at prices ranging from $2.50 to $20 apiece.

To order, call the U.S. Government Printing Office's Fax Watch service at (202) 512-1716, select menu item No. 4, and request document No. 3232. That will get you a list of the available audit guides, the GPO stock number and price for each, and an order form.

Guides marked with an asterisk can be downloaded from the Internet at the Internal Revenue Service's Web site, *www.irs.ustreas.gov.*

*Air Charters**
*Architects**
Artists and Art Galleries
Attorneys
*Auto Body Repair**
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*Bed and Breakfast**
Cattle Auction Barns
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Indian Assistance
*Ministers**
*Mobile Food Vendors**
Mortuary/Cemetery
Oil and Gas
*Passive Activity Losses**
*Pizza Restaurants**
The Port Project
Reforestation
Rehabilitation Credit
Resolution Trust Corp: Cancellation of Indebtedness
*Taxicabs**
*Tobacco Industry**
Tour Bus
*Trucking Industry**
Wine Industry

The IRS says the following audit guides are in the final editing process and could be released soon; no dates have been set.

Alternative Minimum Tax
Bail Bond Industry
Car Wash
Coal Excise Tax
Commercial Banking
Farming: Specific Income Issues
Furniture Manufacturing
Hardwood Timber Industry
Manufacturing
Masonry and Concrete
New Auto Dealers
Placer Mining
Retail Liquor Stores

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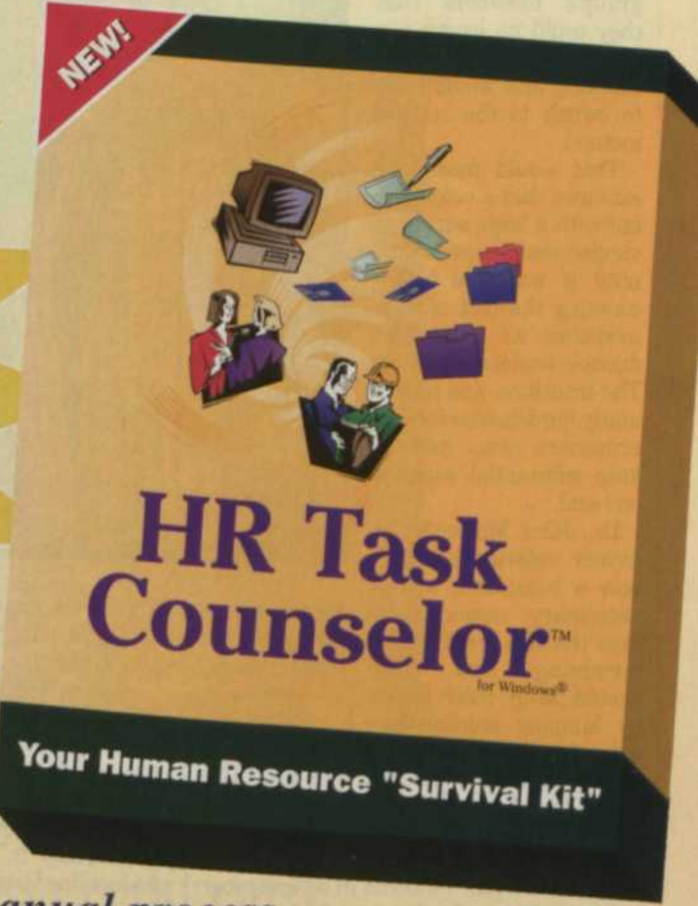

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PHOTO: ©PAUL SOUDERS

Keeping good records *and maintaining open lines of communication with the IRS can help you come out on top in a tax dispute, says Dawn Mallory, who markets hair-care products from her home.*

Medical Association in Washington, D.C., discovered that IRS auditors were telling many of the group's members that they could no longer use the cash method of accounting and would have to switch to the accrual method.

That would mean, for example, that a veterinarian with a large supply of vaccine would have to wait until it was sold before counting the cost of that medicine as a tax-deductible business expense. The transition was particularly burdensome for veterinarians who had to keep substantial supplies on hand.

Dr. John McCarthy, a former veterinarian and now a consultant to the veterinary association, says the IRS erred in determining how vets should keep their books by lumping animal doctors with physicians and dentists and failing to realize how different they are. "The vet is the doctor, the pharmacy, and the hospital" rolled into one, he says.

At the association's request, the IRS listened to the vets' concerns in a November 1994 meeting and subsequently developed an audit guide for the industry. The association reviewed and commented on the guide last year.

"We were very pleased we could sit down at the table" with the IRS and express the veterinarians' concerns, says the association's president, Dr. Bruce Little. "Consistency [in the auditing process] is what we were after, and an understanding of what really takes place" within the veterinary profession.

McCarthy says the vets are still waiting for the guide to be published, and he is hoping the IRS will accept the association's suggestion that the vets be allowed to use a hybrid form of accounting that would keep them from having to take a big tax hit on inventories of medicines.

Going It Alone

It's also possible for an individual to deal with the IRS directly and get positive results, says Dawn Mallory. She sells hair-care products through her Seattle home-based business, Autograf Specialty Hair Care Products.

Mallory's tax problems started with a letter in 1993 from the IRS stating that she owed $7,500 in back taxes because of improperly claimed deductions for her home office and for insurance. "They've been on us for a long time because of the type of business it is. There's an awful lot of cash that runs through it," says Mallory, whose main product line is an anti-dandruff scalp treatment called Dare to Wear Black.

Mallory had not read the audit guide, *Beauty Shops/Barber Shops*, and had never hired an attorney or accountant to help her. But she determinedly pursued her case, and it was settled just last year.

Through three years of letters and phone calls, Mallory resisted paying the tax bill and kept requesting an audit, which finally took place in 1996. It lasted less than three hours because of Mallory's meticulous record keeping, and it ended with the IRS acknowledging that she did not owe $7,500 after all.

Mallory is convinced that her method of promptly answering all correspondence and phone calls from the agency kept the IRS from moving to attach her bank account to get the $7,500 before she could persuade the agency to conduct an audit. Once the IRS agreed to examine her books, Mallory says, her business receipts took care of the rest.

"The secret of dealing with the IRS," Mallory says, "is covering [yourself] with record keeping, staying in immediate contact with them, and cross-referencing everything."

Five years after it began, the Market Segment Specialization Program is described as successful by some tax experts but as disappointing by others.

"My overall impression is that it is one of the more effective things the IRS has done in the enforcement area because it allows them to leverage expertise across their entire agent population," says Coopers & Lybrand's Scott. Publication of the audit guides "makes that information available in a usable form, and that's like instant training for someone who's never audited a gas station before."

But the IRS's failure to move more quickly in publishing a majority of the guides is hampering the program's effectiveness, for the agency and taxpayers alike, some tax experts say. Notes Ernst & Young's Killfoil: "The program has progressed somewhat slower than I would have liked to see it progress." NB

For More Information

These books are designed to help small-business owners deal effectively with the Internal Revenue Service:

The IRS Audit Protection and Survival Guide Series, by Dan Baran and Gerald Bernard; $45 for each of the six books in the series; published by John Wiley & Sons, Inc., New York City.

Stand Up to the IRS, by Frederick W. Daily; $24.95; published by Nolo Press, Berkeley, Calif.

How to Handle An IRS Audit, by Seymour Goldberg; $69.50; published by IRG Publications, Garden City, N.Y.; distributed by *The CPA Journal*, New York City.

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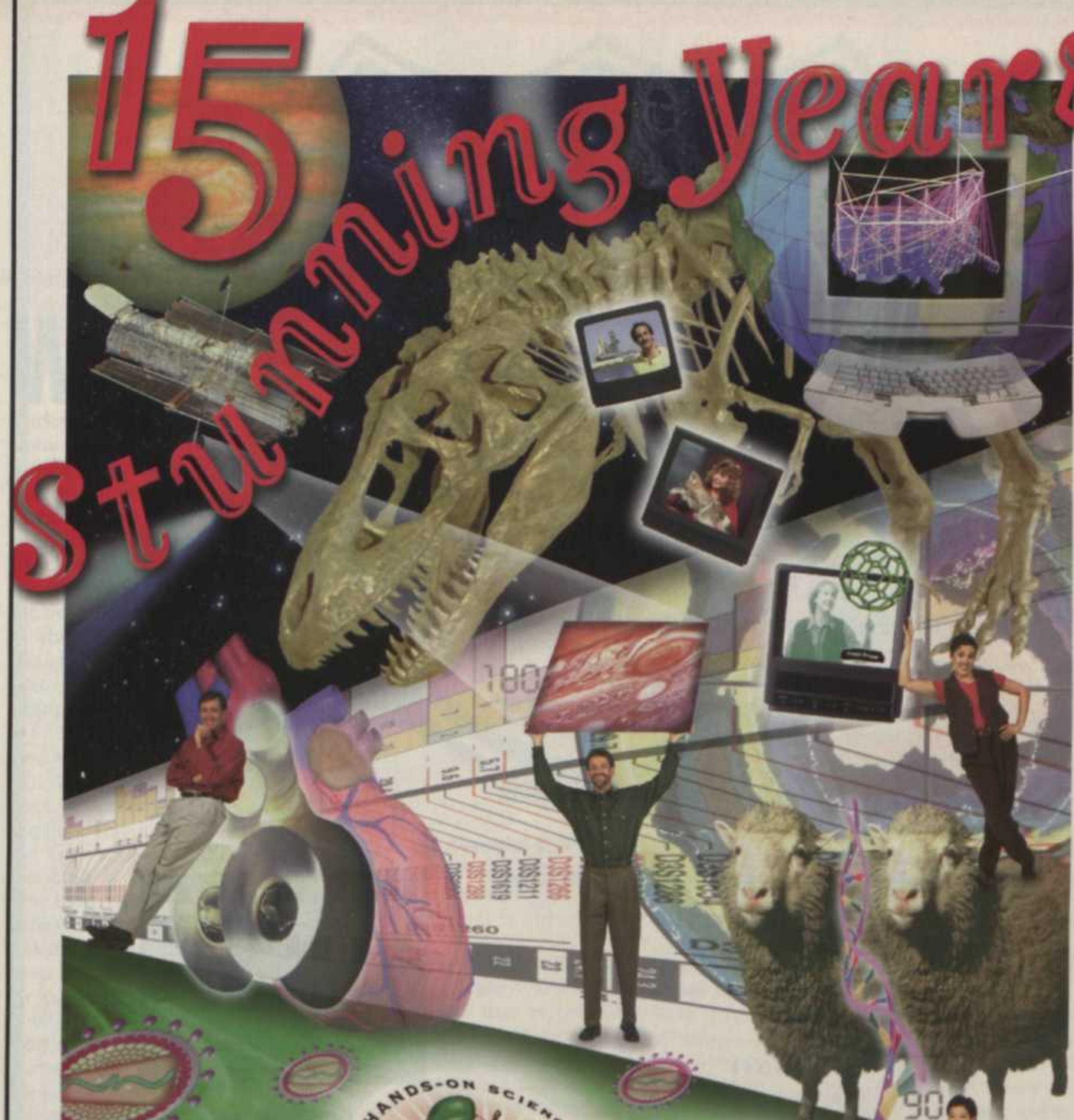

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The 1998 Trucks

By Julie Candler

What the buyers of light-, medium-, and heavy-duty trucks want is more roominess and power, with less downtime for service and repairs. And that's what manufacturers are rolling out for 1998.

Cabs are getting bigger in everything from pickup trucks to trailer-hauling tractors, some of which have sleepers spacious enough to be outfitted like luxury motor homes. Makers of light-duty pickups are rushing to market with third or fourth doors to make the back seats of their extended cabs more accessible.

In the sport-utility-vehicle (SUV) segment, truck makers are going to great lengths. The king-of-the-road Chevrolet and GMC Suburbans, the longest SUVs ever built at 219 inches, may be outdone soon by a Ford "crew wagon" that is 10 inches longer.

Demands for power are satisfied by muscle as makers of light-duty trucks offer bigger engines or tweak engines to produce more horsepower. For the first time, a V-8 is an option on a compact SUV, the Dodge Durango. In the heavy-duty-truck segment, there are the Arnold Schwarzeneggers of diesel engines: the Cummins Signature 600 and the Caterpillar 3406E, both achieving 600 horsepower.

Less Wasted Time

For protection against costly downtime, some manufacturers are offering buyers more help if their vehicles go out of service. Chevrolet, for example, offers light-duty-truck owners 24-hour roadside assistance, and the company will provide a free rental vehicle if overnight repairs are needed during warranty-covered work.

Kenworth is finding that most buyers of its new T2000, a truck in Class 8 (more than 33,000 pounds gross vehicle weight, or GVW), are opting for the Extended Service Interval maintenance program. The service interval under this option is every 25,000 miles instead of the industry norm of 10,000 to 15,000 miles; the engine is guaranteed against repairs that might be needed because of the longer interval.

The Chevrolet G3500 van *features an improved transmission and a standard theft-deterrent system.*

For 1998 models, most prices are holding steady. Chrysler announced in mid-August that its prices for 1998 cars and trucks will drop an average of 0.6 percent; Ford plans no price increases; and General Motors has said that prices for cars and light-duty trucks will rise an average of 1.3 percent.

Trucks, including mediums and heavies, made up 44.8 percent of total vehicle sales in 1996. For 1997, through July, trucks were up to 45.9 percent of the total market, according to GM spokeswoman Annemarie Sylvester.

Sport-utilities accounted for 12.6 percent of industrywide sales for the first seven months of 1996. For the same period in 1997, they grew to 14.7 percent of sales.

Pickup sales have been down slightly. Minivan sales have been flat, partly because baby boomers are maturing beyond the need for a "family shuttle bus," says Jay Houghton, director of marketing at A.T. Kearney, Inc., an automotive consulting firm in Southfield, Mich.

Alternative Fuels

Manufacturers of light-duty vehicles are getting serious about alternative fuels. Chrysler and Ford have announced plans to produce dual-fuel vehicles that can operate on gasoline or on E-85, a mix of 85 percent ethanol and 15 percent gasoline. The companies are motivated by a federal law that lowers fuel-economy standards by as much as 1.2 miles per gallon for vehicles that can run on either ethanol or gas.

Because of safety concerns about air bags, buyers of most pickup trucks that lack rear seats now can push a switch that disables the passenger-side bag temporarily if a child or small adult is riding in that seat. Several truck makers are producing gentler-inflating air bags to reduce the risk of injury to children and small adults in front passenger seats.

In the heavy-duty segment, truckload carriers' business is booming, and the Class 8s are surprising experts who had forecast that sales of the big trucks for 1997 would be less than last year's 170,000 units.

"A lot of freight is moving. There's a reasonable probability that sales in 1997 could be 10 percent more than last year," says Stuart MacKay, owner of MacKay and Co. in Lombard, Ill., a consulting firm for the heavy-equipment industry.

Light-Duty Trucks

Following are new trucks and features in Class 1, up to 6,000 pounds GVW; Class 2, 6,001 to 10,000 pounds; and Class 3, 10,001 to 14,000 pounds.

Acura

The SLX sport-utility's new, more-powerful 3.5-liter V-6 combines with what Acura calls "torque-on-demand," which transfers power to all four wheels at the touch of a button. The SLX has a redesigned front end and new luxury items, including power fold-in side mirrors and heated power front seats.

AM General

AM General makes few year-to-year changes to the military-born Hummer, whose commercial applications include

SPECIAL REPORT

Honda CR-V

Mitsubishi Montero

Kia Sportage

construction, mining, oil exploration, and forestry. An optional turbo diesel engine, a 6.5-liter V-8, has been upgraded from 190 to 195 horsepower.

Chevrolet

Businesses now can buy the nimble-handling Chevrolet Venture as a cargo wagon, adapted from the popular minivan that arrived as a 1997 model. The cargo version can be ordered with sliding doors on one or both sides and is available on extended wheelbases only. Cargo space stretches up to 155.9 cubic feet for four-door models, and the van can carry payloads of up to 1,519 pounds.

The S-10 compact pickup has undergone front-end changes that make it more closely resemble Chevy's big C/K pickup. Chevrolet's gold bow-tie logo now appears on the small sport-utility that is now called the Chevrolet—not Geo—Tracker.

This past spring, GM began production on optional dual-fuel versions of the two-wheel-drive, regular-cab, full-size Chevrolet C2500 and GMC Sierra pickups. Their Vortec 5700 V-8 engines operate either on gasoline or compressed natural gas.

The G3500 van makes standard the Passlock theft-deterrent system, which prevents the engine from starting for 10 minutes if a wrong key is used. Improvements have been made to both the regular and the heavy-duty four-speed automatic transmissions with overdrive.

Chrysler

The newest Chrysler Town and Country is a luxury suite on wheels with comfort assists including optional heated front seats and increased power from a 3.8-liter V-6.

All three minivans produced by Chrysler Corp.—the Town and Country, the Dodge Caravan, and the Plymouth Voyager—are offered with flexible-fuel engines that run on either gas or E-85. The Plymouth Grand Voyager Expresso has a package that includes remote keyless entry and special nameplates.

Dodge

The Durango, Dodge's first sport-utility vehicle, measures more than a foot longer than the longest Jeep, making it the largest compact-size SUV. Dodge says the Durango is the only compact sport-utility with optional eight-passenger seating.

At the top of the Durango's three Magnum engine choices is the powerful 5.9-liter V-8 with 250 horsepower; it's the only V-8 in the compact sport-utility segment.

The nice-handling, full-size Ram Quad Cab is the first pickup to offer dual access doors to the rear seat.

Ford

The compact-size Ranger pickup gets a new front end reminiscent of the popular Explorer sport-utility. A new 2.5-liter four-cylinder engine replaces the previous 2.3-liter, and suspension changes have improved handling. The engine operates quietly and accelerates efficiently.

A longer wheelbase on the regular-cab Ranger gives 3 more inches of legroom and 4 extra cubic feet of interior space. The Ranger is expected to get a four-door option during the 1998 model year.

GMC

The Jimmy, a compact sport-utility vehicle, and the Sonoma compact-size pickup get new front-end styling plus added seating comfort and instrument-panel improvements. Both vehicles have GMC's Truck Body Controller, computer-based electronics that perform tasks such as automatically turning on and off and dimming headlights and disabling the fuel system for 10 minutes if someone tries to force a lock.

Modifications have increased brake life and decreased stopping distances on both vehicles. A new trailer-hitch configuration has raised towing capacity from 2,000 pounds to 3,500 pounds.

Honda

The successful CR-V sport-utility, introduced in February, will add new models next February.

Jeep Grand Cherokee Laredo

Lexus SLV

Plymouth Grand Voyager Expresso

The updated four-door Passport sport-utility, twin to the Isuzu Rodeo, has an all-new exterior with a roof rack and heated dual power mirrors as standard equipment. Roominess and seat-down cargo volume have been increased.

The Passport still has a 3.2-liter V-6 engine, but horsepower has been increased to 205 from 190.

Infiniti

The QX4 luxury sport-utility, based on the Nissan Pathfinder, was new for 1997. Its All-Mode system acts like two-wheel drive on dry roads. But if the road becomes slippery, the QX4 automatically shifts—so smoothly that it's undetected by the driver—to a 50-50 split between front and rear wheels.

Isuzu

The four-door Rodeo sport-utility gets a total makeover, with a roomier body featuring curvier styling and an egg-crate-type grille. A twin to Honda's Passport, the Rodeo is designed to be 50 percent quieter than earlier models and to be more carlike, with lighter weight and a strengthened frame.

Horsepower and torque are increased significantly for both the standard 2.2-liter, 16-valve, four-cylinder engine and the optional 3.2-liter, 24-valve V-6.

Isuzu Rodeo

Land Rover Range Rover 4.0 SE

Lincoln Navigator

Jeep

The Jeep Cherokee adds a Classic model, with low back seats and adjustable headrests, and a top-of-the-line Limited model with all the extras in one package. Both are powered by the standard 190-horsepower, 4-liter, in-line six-cylinder.

A premium-fuel V-8 engine makes the Grand Cherokee Limited the fastest-accelerating sport-utility available in the U.S. The Grand Cherokee Laredo package offers features such as a roof rack, a leather-wrapped steering wheel, and a cargo-area net with tie-down hooks.

Kia

A Kia Sportage two-door convertible will arrive in early 1998. A compact sport-utility, it has a removable soft top in the back, designed to fold compactly. It will feature the same 2-liter engine that powers the four-door Sportage sport-utility.

Land Rover

Minor changes include premium Harman-Kardon audio systems and leather gear shifts for the Range Rover 4.6 HSE and the 4.0 SE. The Discovery LSE gets a leather interior and a Harman-Kardon audio system.

Lexus

Two new sport-utilities will move into showrooms for 1998. First will be the full-sized LX 470, a refinement on the LX 450 and based on the Toyota Land Cruiser. The LX 470 will have new styling and more and better luxury features, along with a 4.7-liter V-8.

The midsize RX 300, based on the Toyota Camry's platform, features luxury-sedan comfort, a carlike ride, quietness, roominess, and all-surface traction (all-wheel drive). Derived from a concept vehicle, the SLV (sport-luxury vehicle), which Lexus displayed at auto shows early this year, the RX 300 is positioned as what the industry calls an entry-luxury vehicle.

Toyota Sienna XLE

Pontiac Trans Sport

AM General Hummer

Lincoln

Lincoln is in the truck business with the luxurious, four-door Navigator sport-utility, which went on sale July 1. Available in two- or four-wheel drive, it's built on the platform of the big Ford Expedition and seats up to eight. It boasts a 5.4-liter, 230-horsepower V-8 and a four-speed, electronically controlled transmission with overdrive.

Mazda

The all-new compact B-Series pickup truck arrives this fall with sculpted side styling and 3 inches added to the length of its regular-cab interior for greater comfort and storage space. The most powerful of three engine choices is a 4-liter V-6. The B-Series comes in a regular cab or an extended Cab Plus; both models have two- or four-wheel drive.

Mercedes-Benz M-Class

Oldsmobile Bravada

Mazda B-Series

Mazda says that frame stiffness has been improved by more than 350 percent for better ride and handling.

Mercedes-Benz

The 1998 M-Class All-Activity Vehicle, officially the ML320, emphasizes carlike quality. Arriving from Daimler-Benz's new factory in Alabama, this sport-utility with full-time four-wheel drive and an electronic traction system goes on sale this fall.

Its 111-inch wheelbase is 5.1 inches longer than the Jeep Grand Cherokee's. Ruggedly functional styling reflects a Mercedes heritage. While most sport-utilities derive from truck platforms, the M-class is designed from the ground up to provide the on-road performance of a Mercedes passenger car.

Mercedes has unwrapped a lightweight, 215-horsepower, 3.2-liter V-6 that offers smooth operation and performance.

Mercury

Among the new features on the Mercury Mountaineer, a four-door sport-utility previously available only with a 5-liter V-8, are a standard high-tech V-6 engine with a five-speed automatic overdrive transmission. The 4-liter V-6 generates 205 horsepower.

Mitsubishi

The compact Montero Sport, a four-door, five-passenger sport-utility, now has anti-lock brakes standard on most models. The top-of-the-line XLS four-wheel-drive model also has heated front seats, a rear heater, and heated exterior door mirrors. There's also an XLS two-wheel-drive model with the same standard items.

The slightly larger, upscale Montero sport-utility gets a minor face lifting, and the lineup has been simplified to one basic model and optional equipment packages that add luxury, value, or cold-weather protection.

Nissan

The first restyled pickup from Nissan since 1986 gets a name of its own: the Frontier. Designed for carlike qualities, it has a sloping front grille and longer, wider, and taller dimensions than its predecessor. The regular cab is nearly 10 inches longer, and there's a king cab as well.

The Frontier boasts the largest standard bed in the compact segment. Anti-lock brakes are standard on both the two- and the four-wheel-drive versions.

Beginning in 1998, the Frontier will offer a 3.3-liter V-6 engine. The pickup arrives this fall with a dual-overhead-cam, 2.4-liter, four-cylinder engine.

Oldsmobile

More-contemporary styling has given a leaner look to the luxury Bravada, a four-door, seven-passenger sport-utility. It has a new instrument panel and safety belts connected directly to the front seats.

Luxuries such as leather seats and automatic climate control remain standard, and Olds has added electric seat heaters as an option.

The Bravada is equipped with Smart Trak full-time all-wheel drive, which switches from rear-wheel drive to all-wheel drive when road conditions warrant.

Pontiac

The Pontiac Trans Sport minivan is marketed as a fun, performance-oriented vehicle. This year, the popular dual sliding doors are available on the regular-wheelbase model in addition to the extended-wheelbase van. The Montana, with a $1,000 package of sporty options, is racking up 41 percent of Trans Sport's sales.

Suzuki

On the Sidekick Sport, Suzuki's top-of-the-line four-door sport-utility, a keyless entry system is standard, and there's a new grille. Among other refinements for 1998, keyless entry becomes standard on the coupelike two-door, the X-90.

Toyota

Based on a stretched and modified platform from the Camry midsize car, the all-new Sienna minivan is intended to be more sedanlike than other minivans while

Dodge Ram Quad Cab

Ford Ranger XLT

Nissan Frontier

providing up to 143 cubic feet of cargo volume. An all-aluminum, 3-liter V-6 delivers 194 horsepower.

Standard features include four-speed automatic transmission, a tire-pressure warning system, anti-lock brakes, and removable modular second- and third-row seats.

Medium- And Heavy-Duty Trucks

Following are new trucks and features in Class 4, 14,001 to 16,000 pounds GVW; Class 5, 16,001 to 19,500 pounds; Class 6, 19,501 to 26,000 pounds; Class 7, 26,001 to 33,000 pounds; and Class 8, more than 33,000 pounds.

Ford

To concentrate on its high-volume light-duty-truck market, Ford is ceasing production of medium- and heavy-duty trucks at year-end. Ford's midrange diesel Louisville and Aeromax vehicles will be renamed and produced by Freightliner, which acquired Ford's medium- and heavy-truck business.

Mitsubishi Fuso FG

Hino FE

GMC C-Series

Freightliner Business Class

UD Trucks UD3000

Volvo 770

Meanwhile, in March Ford announced the Louisville 111, a severe-duty or vocational-use truck designed for snowplowing, sanitation or utility work, towing, and other jobs requiring front power takeoff, which transmits engine power to drive a hydraulic pump for operations such as dumping, packing refuse, or mixing concrete.

The axle is set forward to lengthen the wheelbase to meet the stringent bridge-law and axle-spacing requirements in some states; these regulate the weight that can be put on each of a vehicle's axles and how far apart the axles must be.

Power comes from Caterpillar or Cummins diesels of up to 300 horsepower; premium-engine models range up to 435 horsepower. The 111 offers GVWs of up to 80,000 pounds.

Freightliner

Freightliner's acquisition of Ford's medium- and heavy-truck business will be completed in March. The truck maker is tendering new contracts to Ford heavy-truck dealers who will sell the renamed Louisville and Aeromax trucks.

In March, Freightliner introduced an optional Driver's Lounge, which converts a premium Century Class vehicle's cab from a sleeping area into a working or dining area. The lower bunk lifts against the back wall and reveals a fold-down table. Fully cushioned seating is on both sides of the table.

The optional, radar-based Eaton-VORAD Collision Warning System, introduced in 1996, is exclusive to Freightliner's Century Class. The system warns of slow-moving vehicles ahead or of a vehicle approaching from the driver's blind spot on the right.

For its medium-duty Business Class trucks, Freightliner has introduced a factory-installed all-wheel-drive option. It is designed for on- or off-road work and for applications such as construction and mining.

GMC

Only minor changes will appear on the medium-duty conventional C-series and T (for tilt) series of cab-over-engine trucks, marketed as both GMC and Chevrolet products.

GM is expected to introduce new midrange cab-over models later this year.

Hino

An extensive redesign has upgraded Hino's Class 4 through 7 trucks, which have a more powerful lineup of diesel engines and a new logo.

The biggest changes are in the Class 4 and 5 models. Hino bills the Class 4 FA1517, with a body-and-payload capacity of 9,145 pounds, as ideal for local and medium-range deliveries. The Class 5 FB1817, excellent for city delivery, features a body-and-payload capacity of more than 11,000 pounds.

The Class 4 and 5 trucks have wider, longer cabs designed for low wind resistance. Optional roof-mounted air deflectors further reduce drag. A windshield that is 37 percent larger widens visibility.

The Hino-built 5.3-liter, 165-horsepower, four-cylinder diesel powering the Class 4

Navistar International Paystar 5000 Series

Kenworth T2000

Ford Aeromax

and 5 models improves its fuel economy by about 5 percent.

The FD220 and FD220LP Class 6 vehicles, with body-and-payload capacities of more than 14,000 pounds, are designed for furniture and appliance delivery, for carrying cars, and for nurseries, bakeries, and laundries. The LP is a "low-profile" truck; its lowered frame height enables easier loading and unloading and enlarges vertical cargo space. Eight-liter, six-cylinder engines produce 200 horsepower—an 8 to 12 percent improvement—for the Class 6 and 7 FD, FE, FF, and SG 3320 models.

Isuzu

The 1998 FRR, a Class 5, is powered by a lightweight but powerful, turbocharged, 7.1-liter diesel engine that delivers 200 horsepower. A six-speed manual transmission is standard, and a four-speed automatic is an option.

Kenworth

For over-the-road trucks needing a little less bulk to maneuver around regional routes, a medium-sized 60-inch Aerodyne sleeper has been rolled out for the T2000 Class 8 truck introduced last year. The sleeper can pack upscale conveniences—such as a stereo and a 39-inch-wide, liftable bunk—within its smaller dimensions.

The sleeper can be used in conjunction with a 550-horsepower engine on the T2000 model with a length of 120 inches from the bumper to the back of the cab (BBC), and with less powerful 11- and 12-liter engines on the 112-inch-BBC truck. Headroom at the bunk is 6 feet, 4 inches, and there's an optional upper bunk.

A lighter Class 8 T800 day-cab tractor is specified for services such as petroleum and bulk hauling. It offers power, durability, and safety for round-the-clock operations. The tractor weighs just 12,904 pounds and has enough power—from a 380-horsepower Caterpillar C-12 engine—to move an 80,000-pound load.

Mack

An E-Tech engine with new electronics, the E7 V-MAC, offers good fuel economy, throttle response, and engine braking. The new power plant features the V-MAC III, Mack's electronic system for vehicle management and control.

Operation in test fleets showed that fuel economy improved 2 to 3 percent over the previous E7 engine. Performance is boosted by electronic unit pumps, one for each cylinder, located on the side of the engine block instead of inside the engine, which makes the pumps easier to service. The pumps also make throttle response 20 to 30 percent quicker.

Paired with the new engine is a new high-technology J-Tech engine brake, which delivers 40 percent more braking power than its predecessor.

Last November, Mack added the RD694, a lighter-weight vehicle with the E5 engine for construction, landscaping, snowplowing, and other vocational uses.

Mitsubishi Fuso

The new FG, on sale this fall, is the first four-wheel-drive, medium-duty cab-over truck. It is intended for use in forestry, landscaping, agriculture, construction, and other jobs handled off-road.

While technically a Class 3, the FG joins Mitsubishi Fuso's lineup of aerodynamic, cab-over, medium-duty, diesel-powered trucks in Classes 3 through 7. The new truck has a maximum GVW of 12,000 pounds and hauls a body-and-payload combination up to 6,590 pounds. It can be operated in two-wheel or four-wheel drive, high or low gear, by manually adjusting hubs.

The FG's 3.9-liter, four-cylinder, turbocharged diesel engine delivers up to 135 horsepower and 253 foot-pounds of torque.

Navistar

The International 9100, a new day-cab tractor for regional hauling, shares common parts with other International 9000 Series tractors. With a roomier aluminum cab, the 9100 can haul up to 110,000 pounds gross combined weight (tractor and trailers). It utilizes engines from

Mack CH600 74-Inch High-Rise

Peterbilt 379 With UltraSleeper

Western Star 4964EX

Caterpillar, Cummins, and Detroit Diesel that are rated at up to 435 horsepower.

The 9100 can be ordered through Navistar's new system of custom specifying of components, called Diamond SPEC, for buyers of International 9000 Series premium conventional (long-nose) trucks. The system reduces the number of order decisions for a customer by using prepackaged option groups. It cuts the order-to-delivery cycle by up to 50 percent, according to Navistar.

The tallest sleeper in the industry, the Sky-Rise, went into production in May; it measures 8.5 feet from floor to ceiling. It's available on International 9200, 9300, and 9400 series trucks and on the premium line, the Eagle 9200, 9300, and 9400 series conventional tractors.

The Paystar-series trucks are produced in a joint venture of Navistar and TIC United Corp.

Peterbilt

A new construction vehicle to be available this fall has a sloping hood designed to prevent accidents by increasing visibility for the driver. The 111-inch-BBC Model 357 has detachable aluminum fenders that can be replaced or repaired quickly, reducing downtime if a vehicle is damaged at a job site.

The UltraSleeper became available in June. It has a full-length door on the sleeper's passenger side, providing easier entry and exit and access from the curb side. Among the sleeper's amenities are large storage compartments, electrical outlets, and personal-computer accommodations. The living/dining area contains room for up to four people on upholstered seating.

The Peterbilt 379 conventional can haul a gross combined weight of up to 160,000 pounds.

UD Trucks

The UD2000—a new Class 5 vehicle—has been added to the light- and medium-duty-truck lineup of Nissan Diesel America, which is expanding its dealer network. The GVW of the new truck is 19,500 pounds, and its gross payload is 12,145 to 12,685 pounds. It accommodates bodies of 10 to 24 feet on wheelbases of 126.8 to 216.5 inches. Its six-speed manual transmission combines with a six-cylinder, 210-horsepower turbo diesel; a four-speed automatic is optional.

The UD3000, a Class 7 with a 30,000-pound GVW, has a payload capacity of up to 20,830 pounds and is available with a choice of six wheelbases, from 147.6 inches to 253.9 inches.

Volvo

The name has been Volvo Trucks North America, Inc., not Volvo GM Heavy Truck Corp., since the company bought out GM's 13 percent stake in the partnership in July. GM will continue all services such as warranty repairs on GM vehicles done by dealers that sell both Volvo heavy trucks and GM medium- and light-duty vehicles.

Volvo says the latest addition to its well-received new VN Class 8 trucks has the largest, most spacious cab and sleeper on the market. The Volvo 770 Integral Sleeper, the truck maker's new flagship, provides 78 cubic feet of storage and 566 cubic feet of space in the conveniently outfitted cab and sleeper.

Western Star

Sales of the six new Class 8 trucks introduced last year, the Constellation Series, have been strong, according to Western Star. No changes are planned for the Constellation lineup: the series 4800FX, 4900EX, 4900FX, 4900SX, 5800SS, and 5900SS. NB

ECONOMIC DEVELOPMENT

The Capital Area's Technology Boom

Known as the birthplace of the Internet, the Washington, D.C., region has become a hotbed of cutting-edge entrepreneurship.

By Peter Weaver

Until recently, doing business in Washington, D.C., usually meant doing business with the federal government. Not anymore.

The area stretching from Washington north to Baltimore and Frederick, Md., and south into the capital's Virginia suburbs has become an entrepreneurial hotbed for two 21st-century industries: information technology and biotechnology.

The region is known as the birthplace of the Internet, and its boosters proclaim that it is now the information and network capital of the world. About 100 Internet-service providers have headquarters in the area, making it the nation's principal hub of Internet traffic.

Moreover, the region is home to an estimated 2,300 technology companies. Technology employment is growing faster in the Washington area than it is in California's Silicon Valley or along Boston's Route 128, according to a recent study by George Mason University in Fairfax, Va. Roger Stough, a professor of public policy at George Mason and principal author of the study, says, "The greater Washington area is the fastest-growing large-technology concentration in the country."

Biotech companies also have sprung up in the region, mainly to work in conjunction with renowned researchers at the National Institutes of Health (NIH) in Bethesda, Md., and at the Johns Hopkins University School of Medicine in Baltimore. More than 300 biotech companies—many of them relatively young and fast-growing—line the Interstate 270 corridor northwest of Washington.

Just how is it that the capital area has given rise to galloping entrepreneurship?

Russell Ramsey, president of Friedman, Billings, Ramsey & Co., Inc., a Washington-area investment-banking firm, offers an explanation: "While the research brainpower at Stanford and [Massachusetts Institute of Technology] formed the intellectual bases for Silicon Valley and Boston's Route 128 corridor, the Department of Defense and the NIH did the same thing here for the infotech and biotech industries."

More Private-Sector Money

Federal funding was essential in launching the Internet and seeding biotech research but is less of a factor now. Government business "is diminishing significantly" as the core enterprise for Washington-area firms, Ramsey says, "while private business, depending on capital markets for funding, is expanding rapidly."

Indeed, Wall Street has begun to view the greater Washington area with more interest. Eighty-two companies in the region issued their first public stock in 1996, raising nearly $300 million. Since 1994, nearly $1 billion has been raised by high-tech companies in initial public offerings. In addition, venture-capital funds pumped nearly $300 million into the area's technology companies last year—twice the previous year's investment.

"Where there's an opportunity to make money, the capital will follow," says Doug Poretz, founder and principal of The Poretz Group, an investor-relations firm in McLean, Va. Poretz provided the inspiration for the first-ever Capital Region Technology Investor Conference, held in June. The two-day conference attracted more than 500 professional investors, portfolio managers, and stock analysts. They heard presentations from executives of about 75 of the region's publicly traded companies.

"Every month we already have at least one technology company raising money by going public," says Patricia Woolsey, chairman of the Fairfax County Economic Development Authority in northern Virginia, "and we're looking for more as investors get to know about what's going on here."

PHOTO: T. MICHAEL KEZA

The National Institutes of Health *is a rich source of recruiting for biotech firm Oncor Inc. and CEO Stephen Turner, left, talking with the firm's Dr. Glenn Nardony.*

In November, the Mid-Atlantic Venture Fair will move for the first time to the Fairfax County community of Tysons Corner, just outside Washington. The previous six events were held in Philadelphia or Baltimore. The fair is a high-stakes dating game that attempts to match the region's venture-capital firms with growing companies in need of investment.

An Industry In The Making

Another sign of the region's arrival as a technology center is the upcoming World Congress on Information Technology. Scheduled for next June in Fairfax County, it will host more than 2,000 senior-level technology executives, inventors, and research scientists from 55 countries.

"This greater Washington area is on the edge of a new [information-technology] industry that will change and dominate the world for the next two decades," says Poretz.

For the past two decades, computer

ECONOMIC DEVELOPMENT

manufacturing and software production, concentrated in California's Silicon Valley, dominated the scene, he explains. "Now it's Washington's turn, as this second wave of business moves beyond hardware and software into the manipulation and movement of information" via the Internet.

Drawing A Crowd

With all the infotech and communications-industry concentration in the Washington area, other companies whose services require access to the Internet—and to the brain pool surrounding those companies—are moving into place in a wave of new business formations.

"We're in the Washington area," says Robert Wiedemer, CEO of Imark Technologies in Reston, Va., "because this is where the talent pool is forming for Internet-related businesses." Wiedemer's company provides Internet services for technical- and business-information publishers. "We don't produce the information," Wiedemer says. "We provide the Internet usage meter and the electronic meter reader."

Says Phillip J. Sweatman, chief of operations for Relay Technology, a Vienna, Va., company whose products provide remote and mobile access to the Internet: "Washington is the hub for anybody who wants to be a player in the information and technology businesses related to the Internet."

Colleges, universities, and corporate education centers are finding that an increasing number of their students have to work at home or at the office after hours. "We're responding to this need with a virtual-campus service which supplies the registration, training materials, testing, counseling—all the functions you'd find on a regular campus," says Carl Tyson, president of UOL Publishing, a McLean, Va., company that provides on-line Internet training.

Some of the area's technology companies started out with products and services that didn't require Internet access at the time. But now they look at the Net as a way to expand sales.

"We're just beginning to build Internet-generated business," says Ron Charnock, CEO of Versatility, Inc. The Fairfax, Va., company provides software for telemarketing and other telephone-connected business in areas such as order taking, customer service, and banking. Instead of using customary 1-800 phone access, Charnock says, "our customers are beginning to handle their services through the Internet."

Internet-related businesses generally begin as small entities scrambling for funds to expand. Doug Humphrey started Digex, now a major Internet-service provider, in his basement in 1990. As business began to take off, Humphrey expanded into an office loft over a Chinese restaurant and soon after broke out into major office space that has grown to accommodate more than 400 employees.

> **"We had to be here because the NIH has the largest concentration of life-science research."**
> **—Stephen Turner, CEO, Oncor Inc.**

The Biotech Boom

While Humphrey and other Internet entrepreneurs were heading into the wild blue yonder, other businesses involved in the biotech industry were also beginning to take off.

"We had to be here," says Stephen Turner, CEO of Oncor Inc., a Gaithersburg, Md., company that develops molecular-testing procedures for early detection of cancer, "because the NIH has the largest concentration of life-science research in the world."

Turner's company regularly recruits top-flight technical people from the NIH. And as a major dividend, Turner says, the Johns Hopkins medical school's cancer-research laboratories in nearby Baltimore and the University of Maryland's biotechnology-research center in College Park are within an easy drive.

"The National Institutes of Health," says Joseph C. Stokes, CEO of Life Technologies in Rockville, Md., "in many ways has provided a great stimulus for our industry similar to what Stanford University's research did for the computer industry in Silicon Valley."

Stokes' company provides cell-culture-growth material for other biotech companies working on cancer and AIDS research and has developed more than 3,000 products for worldwide use. "The NIH and Hopkins have provided, and continue to provide, brainpower for the development of our products," Stokes says, "and brainpower is one of those crucial things that never show up on the balance sheet."

To be successful, every rapidly expanding business center needs not only brainpower but also investment capital. The Washington area's infotech and biotech industries are no exception.

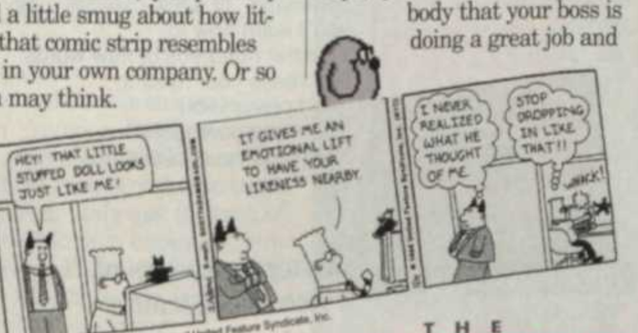
Will Washington become a world-class business city on top of being the world's political power center? At least one money manager thinks so. Says investment banker Ramsey: "The next five years will show us the best environment small businesses have ever seen. We're banking on it." NB

Free-Spirited Enterprise

By Michael Barrier

'Dilbert' Creator Thinks Small

If you own a small business and you read "Dilbert," you probably feel a little smug about how little that comic strip resembles life in your own company. Or so you may think.

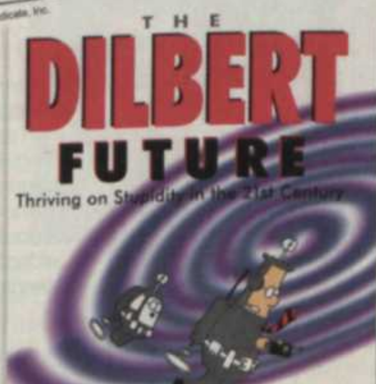


DILBERT® Reprinted by permission of United Feature Syndicate, Inc.

Scott Adams, the creator of "Dilbert," talked to *Nation's Business* recently while he was promoting his latest book, *The Dilbert Future* (HarperBusiness, $25). He conceded that "the smaller the business, the less the overlap" with the idiocies that make up the strip's subject matter—the crazed corporate bureaucracy that he draws to such hilarious effect. "But," he added, "I would say that in small businesses that still have layers and bosses, there's about a 60 percent overlap, if I read the comments I'm getting correctly."

Adams often publishes his electronic-mail address in the strip, and people who work at businesses large and small send him horror stories about their deranged bosses. Even in small companies, he says, "you still have the problem of your boss wanting you to do 200 hours of work in two hours. You still have the boss who doesn't fully value you and is in it for himself." And then there's the tyrannical boss who perhaps comes close to having a certifiable mental disorder.

"In a big company," Adams says, "you can always tell everybody that your boss is doing a great job and hope somebody promotes him away from you. But in a small company, there's no place they can go."



But surely—*surely*—if life in your small business is cozy and friendly, but through some fluke you fall into a bad-boss habit, you'll hear about it. One of your employees (make that "associates"—no, that's tired, how about … li'l pals? Podners?) will come to your rescue by gently pointing out that you are a contemptible fathead.

But no. Adams says he has noticed that as he has become a one-man industry and the rough equivalent of a boss (even though he contracts everything out and has no employees), "the feedback loop breaks, totally, and people's willingness to tell you you're an idiot goes way down."

Not that this is necessarily bad, at least from the idiot's point of view. "I am happier in ignorance," Adams says. "Ignorance definitely is bliss. If everybody told me the things that I'm doing that are bugging them, that I should change to make the world better, I would feel really bad today. But they don't."

Small-business owners whose feedback loops are broken aren't just as happy to have it that way, Adams says, "they're *much* happier."

Small businesses still differ from their larger brethren in important ways, though. "Where there's not overlap," Adams says, "is that in big businesses you have the comfort of doing amazingly unproductive things like going away for a week to write mission statements and talk about your vision. No small company could survive that process. But in a big company you can take away entire divisions for a week at a time, and you never even notice."

He sums up the critical difference this way: "Small companies just don't have the luxury of being stupid." And if they are? "They go out of business."

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Foiling Pickpockets

Last month we listed some offbeat travel products, but here's one that's deadly serious: a 20-page booklet with the jawbreaking title *Foiling Pickpockets & Bag Snatchers and Other Travel Related Crimes/Scams.*

In the travel section of your Sunday paper, you've probably noticed the occasional item about some new dodge that thieves in Rome or Paris or Miami or some other popular city have come up with. *Foiling Pickpockets* is a compendium of all of them—and how to avoid falling victim to them.

Jens Jurgen, the author, has a low opinion of some common protective devices and makes a strong case for the one that he does prefer—but you'll have to read the booklet to find out what that is.

To order, send $3.95 for one copy or $6 for two to Travel Companion Exchange, P.O. Box 833, Amityville, N.Y. 11701-0833. For quantity prices call (516) 464-0880.

Along For The Ride

And here's another travel-related product: Ride With Me Audio, a Bethesda, Md., company, sells audiotapes designed to accompany your travel on specific roads. If you were to drive Interstate 95 from Boston to Florida, for example, you could listen to nine 90-minute tapes along the way, each devoted to one or two states. There are comparable sets of tapes for other highways and a few national parks.

Call 1-800-840-7433 for a descriptive brochure. NB

Building A Winner From Scratch

Six entrepreneurs talk about how they turned their start-ups into franchising giants.

By Roberta Maynard

Why does one person's start-up business remain eternally small, with maybe one or two locations, while someone else's grows into an international franchise empire? Is it leadership, hard work, luck, or something else?

Several entrepreneurs talked with *Nation's Business* about the personal philosophies behind the growth of their companies from start-ups to some of the best-known names in franchising. Their self-described keys to success are both interesting and inspiring.

Robert M. Rosenberg, Allied Domecq Retailing USA

PHOTO: ©RICHARD HOWARD

Robert M. Rosenberg
President and CEO
Allied Domecq Retailing USA
(Dunkin' Donuts, Baskin-Robbins)
Randolph, Mass.
4,300 Units

Key To Success: The Ability To Adapt

You could say that the purchase of Dunkin' Donuts seven years ago by a British company was just another occasion for Robert Rosenberg to hone his adaptability skills. From the time he became CEO of the doughnut company—in 1963 at age 25—he had had many such occasions. And it is to that quality of adaptability that he attributes the success of the company, which grew from the single shop opened in 1948 by his father, Bill, to more than 4,300 locations in 24 countries.

Luck, in the form of favorable market trends, had played a part in the company's early success. When the company started franchising in 1955, it benefited from Americans' heightened desire for convenience and the increasing popularity of the automobile.

Rosenberg took over as CEO in the company's eighth year of franchising. By then, time-pressed customers were wheeling into 100 Dunkin' Donuts shops—all franchises—and the company had annual sales of $10 million. His father's entrepreneurial vision had created the concept and instilled the principle of uncompromising quality, says Rosenberg, but even though his father had always been a great entrepreneur, he wasn't a hands-on manager. When the younger Rosenberg came on the scene, the company was involved in five or six businesses—from vending machines to cafeterias—spread around the country.

Rosenberg had the advantage of a Harvard MBA degree as well as years spent running his father's shops and delivery trucks as a youth. His goal was to improve earnings by focusing on doughnut shops with a standardized format and a simplified menu, he says. The strategy worked: Within 16 years, the business expanded from 100 shops to 1,000.

A public stock offering in 1968 was another landmark occasion for the young CEO and his management team. As the company shifted from a family-owned to a publicly owned enterprise, the change required "new communication skills, a sophisticated business system, and a new level of planning," Rosenberg says.

Then came the inevitable growing pains. "There was a period of time, in the '70s, when we enjoyed immense success. But we went too fast: We picked poor locations and moved into markets in areas we didn't understand. We had to close some stores down, and our stock price dropped. It took a year to turn that around. The big thing we learned was to listen—to our customers and to franchisees."

Then, in 1990, the acquisition of the company by Allied Domecq, PLC, required the doughnut company once again to adjust its corporate culture and manner of operating. Just the fact that the parent company was based in Europe made for challenging times. Dunkin' Donuts became a subsidiary of Allied and part of the U.S. operation known as Allied Domecq Retailing USA.

Recently, the sudden popularity of bagels offered the company a new market opportunity that again called for adaptability. Almost overnight, says Rosenberg, the company got into the bagel business in a big way. Within a year, bagels were being sold in 2,100 Dunkin' Donuts stores.

In business, he says, "the one thing you can count on is a changing environment. ... Our hallmark is the ability to change with the times. We plan well in advance, anticipate, and face the reality about what's happening."

F.C. "Bud" Hadfield
Founder and Chairman
International Center For Entrepreneurial Development (Kwik Kopy Printing, The Ink Well, Franklin's Printing, Copy Club, American Wholesale Thermographers, Demand Graphics Research, and the Women's Health Boutique)
Cypress, Texas
1,022 Locations

Well into adulthood, Bud Hadfield had to exercise his never-give-up attitude.

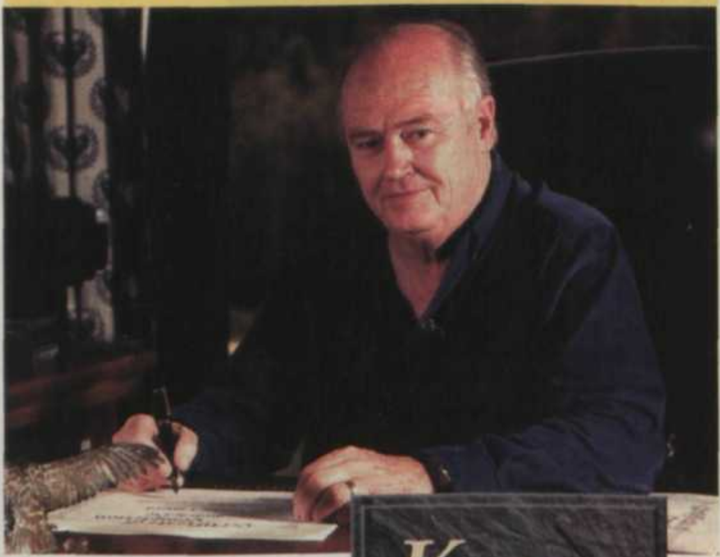
After he was expelled from high school in Rhode Island for poor behavior, Hadfield

FRANCHISING

had a string of failures: an ice-cream business, a pig farm, an egg business, a service station, a fireworks stand, and a personnel agency. In his late 20s, he returned to his lifelong love—printing. He opened a print shop in Houston that eventually assumed the name Kwik Kopy.

The gamble paid off handsomely. Within a year he was able to franchise the business, and by 1969 he had a dozen franchised centers, all turning a profit. He says he was naive about franchising, but it never occurred to him that it might not work. "Thoughts like that never entered my mind."

Bud Hadfield, International Center For Entrepreneurial Development



Key To Success: Never Give Up

His never-quit attitude was put to the test in 1986 when a lawsuit was brought by several franchisees.

One unhappy franchisee, Hadfield says, had devised a scheme to avoid making royalty payments. When Hadfield learned of the scheme, the two began trading threats, finally resulting in the franchisee filing a suit accusing the company of deceptive trade practices. Kwik Kopy countersued.

To make matters worse, many others withheld their royalty payments to Kwik Kopy, waiting to learn the outcome of the legal action.

Though Kwik Kopy prevailed (the judge absolved the company of wrongdoing and awarded it $725,000), the costs—financial and otherwise—were high.

On the positive side, though, the experience shifted Hadfield's thinking: From then on he stopped focusing on adding centers and concentrated instead on providing superior support to existing franchisees, a philosophy he continues to embrace.

At 73, Hadfield still has a reputation of being tough, even ornery. He still comes to work at the crack of dawn—or earlier—and is proud of the fact that the company "doesn't owe a dime and, God willing, will never have to take another mortgage." He's glad he never took the company public—never even considered it, he says—because it would have meant giving up control.

As for his ability to keep going in the face of adversity, he says: "Quitting is such an attractive option sometimes. It means

Hadfield's fighting spirit eventually led to success, but it also led to problems. Before the dawn of his entrepreneurial life, he had trouble in the merchant marine and in his early jobs.

Later, Hadfield's self-described "short fuse" resulted in high employee turnover in his business and more than a few fistfights with customers.

It took Hadfield years to overcome his belligerence, which he attributes to his father's death when Hadfield was 15. "I went from being president of the class to being kicked out of school," he says. "I carried that monkey around on my back for a long time."

It wasn't until a friend persuaded him to attend a class on interpersonal skills—offered by the Dale Carnegie adult-education and training company—that he learned to get along with people. He describes the experience as a turning point in his life and his business. In fact, for years afterward, Hadfield taught Dale Carnegie classes. To this day, employees at ICED, Kwik Kopy's parent company, are sent for Dale Carnegie training.

In 1966, Hadfield saw a demonstration of a new camera that he sensed would change the nature of printing. He took a chance on a new imaging technology and sold everything he could to convert his operation to the new process.

they'll stop beating up on you, but you just don't do it. ... Failure can be a gravestone or a steppingstone, and all failures are temporary until you accept one of them as permanent."

Dave and Gail Liniger, RE/MAX International, Inc.

PHOTO: ©BARRY STAVER

Dave Liniger
Co-founder and Chairman of the Board
RE/MAX International, Inc.
Englewood, Colo.
2,800 Locations

Key To Success: Break Out Of Conventional Thinking

When Dave Liniger, then 27, set out in 1973 to create a new kind of real-estate company in the Denver suburb of Englewood, he faced formidable challenges. The company had insufficient capital, Liniger had no management skills, and he found himself in an industry resistant to new ideas.

The first problem was solved by working with creditors, and the second by time and experience. The third, says Liniger, was overcome by persistence coupled with what today would be called out-of-the-box thinking.

Liniger wanted to establish a compensation structure that differed from the industry standard, one designed to stimulate productivity by letting agents keep their entire sales commissions and pay their share of agency overhead costs, rather than split commissions with the agency. But as the head of a new company with a different approach, Liniger was unable to attract the best agents and wound up with less-than-stellar producers who sought employment with his firm because they were dissatisfied with the jobs they had.

Independent thinking provided an answer to attracting better salespeople. At the time, recalls Liniger, the two best companies in town didn't hire women as salespeople. RE/MAX did.

"We built our company to a very large extent on women," says Liniger, whose wife, Gail, is co-founder and CEO. In the early years, 80 percent of the sales force was made up of women who were hungry for an opportunity to show their mettle. It wasn't until five years after the firm was started that it began attracting top-producing men in significant numbers. In 1975, RE/MAX sold its first franchise. Within two years, it had sold 100.

Liniger says he was motivated and passionate about the business—he was a typical type-A person working 18-hour days—but he recognized that he was inexperienced in business.

He went to the sales associates and asked how they wanted things to work. "We set up advisory groups and started brainstorming. Every good idea we've ever had came from our sales associates," he says. "The strength of our operation is listening to ideas."

As technology advanced, the tradition of a systemwide open forum continued. Before it was fashionable, the company used an on-line service, CompuServe, to connect agents electronically.

Liniger's electronic-mail address is still available to all RE/MAX agents, who now number 46,000. He gets 50 to 100 messages a day.

From the beginning, Liniger emphasized professional development through training. Five years ago the company started offering computer training to agents and created software to help them track leads and access multiple-listing services from their homes. A private RE/MAX satellite network supplies low-cost training, including state-approved and accredited real-estate

courses, to agents in remote locations.

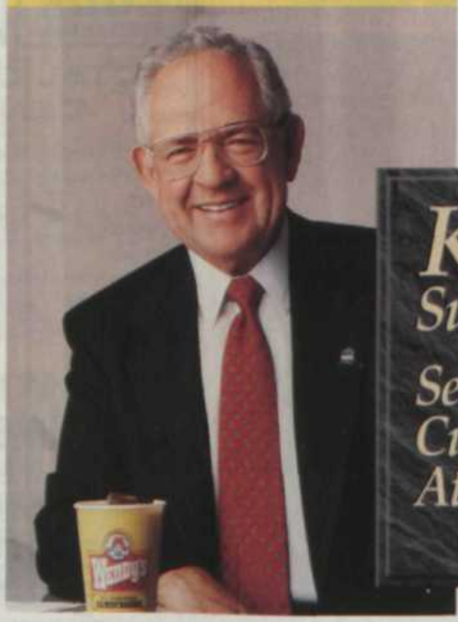
"We've always been on the cutting edge," says Liniger. "We made up our minds years ago that we wanted to change the industry. We're bound and determined that some young upstart company isn't going to take our business away."

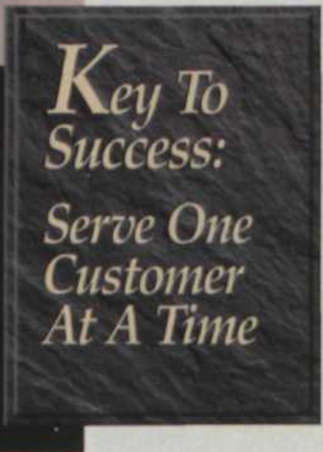
In Liniger's view, "The best way to predict the future is to invent it."

R. David Thomas
Founder and Senior Chairman of the Board
Wendy's International, Inc.
Dublin, Ohio
5,000 Units

Because Dave Thomas much preferred hamburgers to chicken—and preferred them fixed a certain way—Wendy's came into being. After Thomas, then 35, and a partner sold their four KFC franchises in Columbus, Ohio, for $1.5 million, Thomas started a restaurant on his own in Columbus in 1969. The menu was based on his favorite foods: french fries, chili, and, in particular, made-to-order burgers.

R. David Thomas, Wendy's International, Inc.





"I wanted to be sure we'd have a concept that let us serve one customer at a time," he says. "There was a lot of competition. People said the hamburger business was oversaturated. But I knew one thing: It wasn't saturated with quality food. When I was in doubt, that thought kept me going."

Years of hard work in restaurants and a friendship with mentor and KFC founder Harland Sanders, known as the Colonel, laid the groundwork for success for this now-famous restaurateur, who started working at age 12 and dropped out of high school to put in even longer hours.

Thomas says that when he started Wendy's, named for his daughter, he thought he'd have just three or four restaurants. But within a few years, he says, people were begging him to sell them a franchise.

"I had people knocking the doors down—a lot of people who had worked for me at KFC and who worked at competitors' chains. It's the greatest compliment," says the soft-spoken Thomas, "but I really didn't want to franchise. It's a big responsibility. In a weaker moment, I agreed to do it." At the time, 1973, he owned about a dozen Wendy's restaurants in Ohio and Indiana.

As the chain grew to 500 units in the early '80s, keeping operations up to his standards was a challenge. The fast growth made possible by franchising made it difficult for Thomas and his managers to

provide consistent, quality service one customer at a time. Thomas met the challenge by using one of his most popular themes: Focus on the basics.

"It's a continuous thing," he says. "You have to work on the basics every day. It's pretty simple: People want quality food, clean restaurants, good service. Get employees to wash their hands, get the order right, have a clean restaurant. It's no different today than it was 27 years ago."

Thomas credits the Colonel with teaching him some important business lessons. "I saw the mistakes he made. He was a hard worker, a great motivator, and he was very big on quality," says Thomas. "But as far as trying to delegate—zero. He was a one-man band. He wanted to make all the decisions himself."

Unwillingness to delegate, Thomas learned, is "why you see people who have just one restaurant all their lives. If you really want to expand, you have to trust people. You have to have objectives and goals and surround yourself with good people."

Though Wendy's has grown to 5,000 units worldwide, Thomas abhors talking in terms of numbers, whether it's stores, employees, or customers. "Even in this computer age," he says, "our approach is still one customer at a time."

Mark Martino, Maaco Enterprises, Inc.

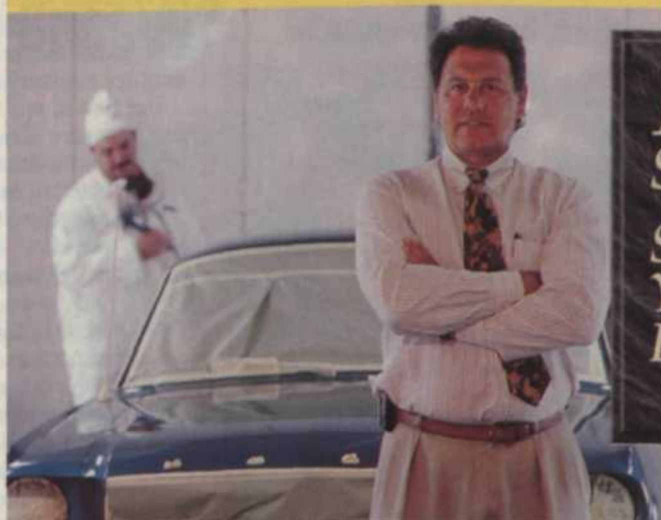


PHOTO: ©SAL DIMARCO—BLACK STAR

Mark Martino
President
Maaco Enterprises, Inc.
King of Prussia, Pa.
500 Franchise Centers

Key To Success: Stick To Your Core Business

Skeptics said automobile painting and body repair was not a workable concept for a franchise, but Anthony A. Martino and his son Mark proved them wrong: This year, the firm's 25th anniversary, Maaco's franchisees will paint their 10 millionth vehicle and will have revenues of more than $312 million.

After Anthony Martino sold the Aamco

transmission-repair business he founded, he looked around for another niche in the automotive market, and in 1972 he started Maaco. (Aamco comes from Martino's initials; Maaco reverses their order.)

He opened a pilot shop in Wilmington, Del., and later that year the first franchise shop was opened in Tucson, Ariz. By 1976, there were 100 centers in suburban areas nationwide.

That year Mark, now the company's president, spent his summer sanding cars at the Wilmington shop. In the early days, says Mark, the challenge was to develop business systems and a national name in a fragmented industry. Primary competition came from discounter Earl Scheib and from independent and auto-dealer body shops.

Like many businesses, Maaco rode the ups and downs of economic cycles, including the high interest rates of the late '70s and early '80s that made it difficult for franchisees to get financing.

But the Martinos faced their biggest challenge in the hot economy of the mid-1980s. "We were going gangbusters," says Mark. "We ventured into the heavy-collision repair market—that involved working with insurance companies for claims payment—and over the years we skewed too much toward that direction."

He says, "The internal challenge is to avoid becoming so full of yourself that you think you can do anything."

It was a struggle to go back to the core business and back to franchisee profitability, he adds.

But Maaco did return successfully to the business of doing lesser cosmetic repairs and to its core customers—those whose cars are five to 10 years old and in sound condition and who are willing to spend an average of $500 to keep them looking good. "We've learned that as a franchisor, you have to have the ability to admit you've made a mistake, correct it, and move on," says Martino. "We've never had trouble taking a route, then changing if necessary."

Successful franchising, says Martino, depends on creating a model in which profitability is achievable by an average person with average intelligence. He would still opt for franchising if he had the decision to make today, though he describes it as difficult.

"People relationships are complicated. Despite the contract," he says, "all you really have is goodwill."

Jim Cavanaugh
Founder and CEO
Jani-King International, Inc.
Dallas
6,000 Franchisees

At age 11, Jim Cavanaugh was throwing newspapers onto porches in his hometown of Norman, Okla. Later he mowed lawns and sold greeting cards. In short, he was a born entrepreneur.

Jim Cavanaugh, Jani-King International, Inc.

PHOTO: ©JOHN R. FULTON JR.

So it was no surprise that while attending college part time—studying business—he launched a business of his own, which he named Jani-King.

He wanted to franchise his commercial-cleaning enterprise immediately. "I thought franchising was great," he says. "If you had a successful program, a lot of people could share in the success. If you help other people succeed, it will help you succeed."

Cavanaugh adds: "I felt that a little ownership helped build pride. You can't hire a manager who cares the way someone with ownership does."

Yet it would take five more years, until 1974, before he had the time to devote to marketing and selling franchises. Rather than trying to run everything from company headquarters, he created a system of regional offices to provide nearby support to franchisees. The company still operates under that structure, with 100 regional offices around the world.

Once the business took off in the first two franchise locations, Oklahoma City and Tulsa, Cavanaugh faced typical expansion obstacles. "Any time you have a growth business and you're not using outside capital, it's really just like starting a new business all over again," Cavanaugh says. "It takes time to build profitability. I chose to take the capital and build the company and didn't use venture capitalists."

But he's happy that the company never had to worry about pleasing stockholders or private investors. Though annual sales are expected to reach $1 billion within the next three years, the company is still privately owned.

Cavanaugh sometimes wonders if different financing would have brought faster growth and, in turn, would have kept out some competitors. But for the most part, he says, he's happy with the way the company has turned out.

"Competition keeps you on your toes," he says. "It's a reason to come up with new programs, new brochures. When you have someone that's right behind you, you do more of the little things that keep you ahead."

Like many mature U.S. companies, Jani-King expects much of its growth to come from international markets. The company began selling franchises overseas when it expanded into Canada in 1985. Now, Jani-King has 1,000 overseas franchisees in 14 countries.

Key To Success: Believe In What You're Doing

"It will be awhile before our company sees 50 percent [of revenues] coming from international, but the potential is there. All it takes," he says, "are buildings in need of cleaning and people with an entrepreneurial spirit. That's found in every country."

His advice to new franchisors is to create a quality franchise program that is mutually beneficial. "Take care of your franchisees. Create a royalty structure that allows you to make money and is fair to franchisees. If they are successful, you will be, too."

Whatever the particular franchise concept, he says, the key to success is believing in what you're doing. "I believed from Day One," Cavaugh says. "I was confident that, as long as I didn't quit, things would work out." NB

Family Business

A long list of distinguishing peculiarities; second thoughts about a rushed decision.

OBSERVATIONS

What's So Special?

By Sharon Nelton

PHOTO: T. MICHAEL KEZA

"What, if anything, is special about the family business?" a reader asked in a letter recently. His family's business was about to turn 100. A company history was in the works, and my correspondent said he would be writing the preface. "Any input on what kinds of peculiarities distinguish family businesses from others would be appreciated and helpful," he said.

Oh, where is the space to respond when I need it? There are so many "peculiarities" that I scarcely know where to begin. Here, briefly, is what I have learned over the years:

Family businesses are believed to be the predominant form of business around the world. Experts estimate—conservatively, they say—that 65 to 80 percent of all enterprises are owned or controlled by families.

Family businesses are characterized by overlapping systems: the family and the business. Each has differing needs, and sometimes those needs conflict with each other—for example, when parents want to treat their three children "fairly" by appointing them co-CEOs, but the middle child would clearly be the best next-generation leader of the company and would best meet its need for growth.

Nonfamily businesses, of course, are not subject to such interplay between business and family.

The "family" in a family firm can enhance a business. Some families function so well that they continually maximize business performance. Some, because their name is "on the door" or attached to a product, do their utmost to offer quality and to contribute substantially to their communities in various ways.

A business offers an owning family an exciting, real-life forum for teaching younger-generation family members about values, work, human relationships, communication, and the like. It provides an added incentive for being close as a family. And it can be a source of not just a good living but real wealth.

But there is a dark side, too. When family members don't work well together or don't love and respect one another, the business can become a battleground that amplifies greed, rivalry, and immaturity. It can destroy the family, or an unhappy family can destroy the business.

Just as the business can be a means for teaching ethics, economics, and leadership, it can be the tool by which some family members exert power and control over others.

The 100th anniversary of a business is a remarkable event—evidence that a family firm can have staying power over many generations. Yet, no doubt there are periods during such a course of time when a business is shaken by family strife. The century milestone is proof that not only did the business endure but, in some form or another, so did the family.

In putting together a 100-year history of a family business, the temptation is to celebrate the triumphs—bouncing back from the Great Depression, for example, or rebuilding after a flood or fire, or inventing and marketing the best darn widget there ever was, or the time great-uncle Joe got elected to the U.S. Senate.

If I were writing the preface to a family-business history, however, I think I'd also want to ponder the shadow side of the family—the time great-granddad's brother took him to court over a business disagreement, for example, or the time Senator Joe's son-in-law had a breakdown and couldn't run the company anymore. I'd want to think about the mystery of families, about how sometimes this family almost didn't make it, and yet, it's still here, running this business after 100 years.

And isn't that something? ■

MARK YOUR CALENDAR ✓

Oct. 8, Randolph, Mass.

"The Perils of Pauline's Family Business" is a psychodrama and workshop presented by a theater group. Call Paul I. Karofsky at the Northeastern University Center for Family Business; (617) 320-8015.

Oct. 14, Toledo, Ohio

"Selling and Valuing the Family Business—Why, When, and How?" is a morning seminar offered by the University of Toledo Center for Family Business. Call (419) 530-4058.

Oct. 15, Stamford, Conn.

"What Is Your Family Business Worth? 'Real World' Business Evaluation" is a seminar offered by the University of Connecticut Family Business Program. The program is to be repeated Oct. 16 in Farmington, Conn. Call Diane Mitchell; (860) 486-4483.

Oct. 24, New Orleans

"Values and Valuation" is a session designed to help owners explore the worth of their family companies. Call the Tulane University Family Business Center; (504) 862-8482.

Oct. 28, Wilmington, Del.

"Motivating Family To Work Together Effectively in the Family Business" is an all-day seminar featuring family-business consultant Leslie Dashew. Call Jill Lock at the Family Business Advisory Council; (302) 652-3480.

Oct. 30, Allentown, Pa.

"Understanding Family Dynamics and the Impact on Business" is a morning program offered by the Lehigh Carbon Community College Family Business Center. Call Lois Yeakel; (610) 799-1703.

Nov. 12-14, Orlando, Fla.

"Managing Succession Without Conflict" is a seminar featuring two renowned family-business experts, Léon A. Danco and John L. Ward. Call Ross Nager of the Arthur Andersen Center for Family Business; 1-800-924-2770.

Nov. 12-15, Marco Island, Fla.

The "Family Business Retreat" covers topics such as compensation techniques, investing strategies, and fair treatment of children. Call the *Family Business Journal* in Beachwood, Ohio; (216) 591-9290.

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Small firms are under increasing pressure to develop better products faster just to remain competitive; here are steps that companies can follow to quicken the pace.

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Wise small-business people aim for long-term relationships that benefit both buyer and seller.

#9147

Labor's New Assault

Big Labor is back—with aggressive efforts to increase union membership and political power—and the stakes for business are high.

#9144

Electricity Deregulation

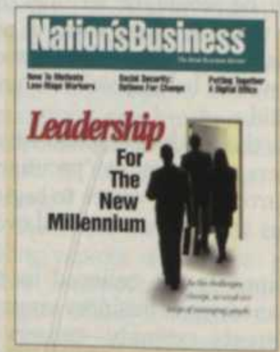
Some small-business owners are beginning to see the impact of electricity deregulation, and others would be well-advised to know what's at stake.

#9148

Pension Power

Small firms that decide they need retirement plans now have more ways of creating the kind that might work best for them.

#9146



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Case Study: Undoing A Bad Decision

Rachel Schultz, 72, has been in turmoil since the recent death of her husband. Bill Schultz had been the driving force in Delta Shoe Manufacturing Co., a business started many years ago by Rachel's father. Bill left Rachel 50 percent of the $25 million-a-year enterprise. Now Rachel's 62-year-old brother, Barry, who holds the other 50 percent, runs Delta.

After Bill's death, Barry began insisting that Rachel sell her shares to him. But Rachel thought Barry's price might be low. She told her children, who were angered by their uncle's offer. With the consent of all parties, Rachel's oldest son, Richard, hired a consultant to value the business. Richard believes that unless the buyout is an "arm's length" transaction—that is, with valuation and terms fair to both sides—trouble will smolder for generations.

Once the consultant initiated his work, Barry became increasingly anxious. Late one night he called Rachel, complaining that he couldn't sleep. "My blood pressure is sky-high," he said. "Please sign the buyout agreement. This is killing me."

Rachel had nursed Barry back to health when he contracted meningitis as a child. She has always been apprehensive about his frail health. Rachel also believed that years ago, Bill negotiated his equity position with his father-in-law too forcefully. She was afraid of any further conflict.

The next morning, Rachel telephoned Richard. "I've signed the agreement," she said. "Barry's blood pressure is dangerously high."

In a long talk with his mother, Richard learned that the lawyer who drew up the papers represented both Rachel and Barry. Now Richard wonders what to do.

ILLUSTRATION: TROY THOMAS

Response 1

Call Time Out

In a crisis like this, Rachel understandably has a high sense of urgency and is unable to think and plan clearly. To dissipate her potential conflict with her brother, Rachel has involved her children and let them handle it. This is a cornerstone, however, for future family conflict, since conflict not dealt with at its source tends to spread and/or intensify.

Rachel's solution is a rather incomplete but emotionally elegant one, resolving her feeling that Bill had too forcefully negotiated his ownership position in her family's firm. Abruptly signing the agreement was a direct response to her emotions.

While Richard could certainly pursue his mother's interest legally, it is my experience that these types of emotionally based decisions often wind up in lengthy legal battles. Families get polarized, and lawyers, in keeping with their advocacy for their clients, often continue the polarization—leading to anything but an arm's-length transaction.

If Rachel could call "time out" and deal directly with Barry, seeking the counsel of others affected by the buyout, she might eventually reach a decision. Richard would do well to encourage his mother to call her brother and explain that she responded too fast, emotionally and under duress. She could suggest that they agree jointly to have the document declared null and void and that they work together with a professional skilled in facilitating intense family situations to reach a solution that meets the emotional and financial needs of both.

PHOTO: ©TOM SOBOLIK—BLACK STAR

Fredda Herz Brown, founder and managing partner of The Metropolitan Group, a family-business consulting firm in Leonia, N.J.

Response 2

Aim For Fairness

Rachel first must decide whether she really wants to sell her interest in Delta. If neither she nor her children have any interest in being an active part of the company, a sale of her stock at a fair price is the best course of action, especially since control of the business is 50-50.

Rachel is somewhat intimidated, however, by the prospect of dealing with her brother. This fear of conflict inhibits her ability to negotiate an equitable deal. Barry clearly understands Rachel's emotional struggle and is exploiting it.

Richard is right. Without a valuation, there is no baseline from which to negotiate. Rachel needs to determine what she believes is fair to herself and her brother. It may be that both Rachel and Barry should sell the company to a third party.

Rachel is definitely not the best person to negotiate with her brother; too many personal factors intervene. Richard might act as negotiator, or, preferably, each side might engage a nonfamily surrogate to negotiate, thereby avoiding face-to-face confrontations.

Rachel and Richard must consult an independent lawyer right away. Although Rachel has signed, the validity of that agreement is suspect since the same lawyer represented both sides, creating a potential conflict of interest. The fact that a valuation was being done when Rachel signed indicates that the lawyer was willing to let her proceed without a clear idea of the value of what she was selling. Rachel can choose to give her brother a bargain, but only after she has all the facts and receives independent advice.

PHOTO: ©SAL DIMARCO—BLACK STAR

Norman Leibovitz, co-chair of the Family Business Group at Fox, Rothschild, O'Brien & Frankel, LLP, a law firm in Philadelphia.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

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August Poll Results
Readers' Views

Congress Gets Credit

By overwhelming margins, respondents to a recent *Nation's Business* poll gave more credit to Republican congressional leaders than to President Clinton for working to balance the budget, fostering economic growth, and paying attention to small-business issues.

In the Where I Stand poll in the August issue, respondents said by a 9-1 margin that the congressional leaders' actions and positions on setting budget priorities, reducing regulation, and cutting taxes—rather than those of Clinton—more closely reflected their own views.

This summer, the Republican-controlled Congress and Clinton agreed on a five-year balanced-budget plan designed to reduce the growth of spending below previously projected levels by $263 billion and to cut taxes by $95 billion over the five-year period. Under the legislation, the budget is expected to be balanced in the fiscal year that ends Sept. 30, 2002.

The budget agreement produced a variety of tax cuts important to small businesses but did not change the basic structure of the tax system. (See "Business Just Got Less Taxing," Page 24.)

The legislation was a victory for both congressional Republicans and the Democratic president. The GOP lawmakers got many of the tax cuts they had long sought as well as a path to a balanced budget by 2002, a goal held out in the 1994 Contract With America. Clinton got some things he had sought, including new health coverage for children, restoration of certain welfare benefits curtailed in 1996, and education tax credits.

Here are the complete results of the poll:

Questions And Answers

Who do you believe is more responsible for the balanced-budget agreement?

Clinton 11%
Congressional leaders 89

Whose spending priorities more closely reflect your own?

Clinton's 10%
Congressional leaders' 90

Who has done more on the issues important to you and ypur business?

Clinton 9%
Congressional leaders 91

Who is more committed to fostering economic growth?

Clinton 12%
Congressional leaders 88

Who is doing more to reduce the regulatory burden on businesses?

Clinton 7%
Congressional leaders 93

Whose policies would more likely lead to lower taxes and a fairer tax system?

Clinton's 9%
Congressional leaders' 91

Where I Stand

On Postal Costs

The U.S. Postal Service, a government-sponsored corporation, is seeking rate increases in most categories of mail. The Postal Rate Commission, which makes recommendations to the Postal Service on rate-change requests, is expected to act by next spring. These questions seek your views on proposed increases and on the current quality of postal services.

Results of this poll will be published in the December issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 **Do you favor the proposed 1-cent increase in the first-class stamp, from 32 cents to 33 cents?**

1 Yes
2. No

2 **Do you think the Postal Service is doing an acceptable job of holding down its operating costs?**

1. Yes
2. No

3 **Do you think the mail you receive via the Postal Service is delivered in a timely fashion?**

1. Yes
2. No

4 **Do you think the mail you send to customers via the Postal Service is delivered in a timely fashion?**

1. Yes
2. No

5 **Would you favor small rate increases for Express Mail (next-day delivery) and Priority Mail (two to three days) to help the Postal Service avoid a deficit?**

1. Yes
2. No

6 **Should the Postal Service remain a government-sponsored corporation, should it be fully privatized, or should it be restored to the status of a government agency?**

1. Keep it government-sponsored
2. Privatize it fully
3. Restore it to government-agency status

Send Your Response Today!

Making It

Growing businesses share their experiences in creating and marketing new products and services.

The Mighty Ducks

By Michael Barrier

Andrew Wilson was a Boston investment banker until 1992, when he gave up the stress of 100-hour work-weeks and embarked on a bus trip across the country to visit family and friends. He stopped in Memphis, Tenn., to see Graceland, the Elvis Presley estate, and there he had a fateful encounter with a "duck"—an amphibious military vehicle used during World War II—that had been converted into a sort of tour bus.

It was a few weeks later, after he returned to Boston, that the idea for a duck tour of Boston, one that combined time on land and on water, "hit me like a bolt of lightning," he says.

Wilson had been living on a sailboat and taking guests out on a runabout for water views of the city from the Charles River. "What I put together," he says, "was the duck as a stage, the views from the Charles, and the fact that the history in Boston was so poorly presented" by some of the existing land tours.

Five years later, Wilson, 40, is the proprietor of Boston Duck Tours, which runs 12 ducks. He could run twice that many, he believes, but he doesn't want to test the city's patience, and "my gut tells me that we're maxed out at 12." He expects to carry 300,000 people before the season ends in November and to turn away 100,000 more.

Wilson's ducks don't look much like military vehicles. The ducks are painted different bright colors, and each of the 19 "captains"—all with Coast Guard licenses—"takes on his or her own theatrical persona," Wilson says. The ducks, which depart from Prudential Center, take 32 passengers each on an 80-minute tour that passes by many of Boston's landmarks and includes 20 minutes or so on the Charles.

"The hulls are original," he says of his fleet. "With the exception of a couple of gearboxes, the mechanical aspects have been significantly updated."

As cheerful and harmless as his ducks may appear, Wilson had a lot of trouble convincing the city of Boston that he was not leading an amphibious invasion. Duck tours have been around for a long time at vacation spots in the Midwest—including the entertainment mecca of Branson, Mo., and the scenic Dells of the Wisconsin River—and they're not unknown in cities, but the idea of a duck tour in Boston aroused skepticism.

PHOTOS: ©WEBB CHAPPELL

Some initial skepticism *didn't ruffle the feathers of Andrew Wilson, who uses updated amphibious military vehicles called ducks to give tours of Boston.*

"They just weren't familiar with the concept," Wilson says. "Literally, people told me I was nuts, that it wouldn't work, that I didn't know what I was doing." In fact, he says, "when I first came up with the idea, I didn't know what I was doing. But I wasn't nuts."

At the start, Wilson didn't even have a duck that he could use to show wary officials what he had in mind. Nine or 10

months into his struggle, though, he hooked up with Manuel Rogers, a Cambridge, Mass., funeral-home owner and military-vehicle collector who owned a duck.

Rogers helped raise capital for Wilson—who by then was rapidly running out of money—and "more importantly," Wilson says, "found another duck that we modified. Because we weren't carrying passengers for hire, we didn't need a single permit, except for a driver's license and a tag."

Wilson thus could give away sample tours to officials and community leaders who had been having trouble visualizing what a duck tour would be like. After that, he says, "it was a lot harder for them to say no."

He finally got the last permit he needed—to put his ducks onto the Charles River—in the spring of 1994. By the fall, he had raised $1.25 million in capital from 33 investors; Boston Duck Tours opened for business, with four ducks, in October 1994.

Since then, Wilson says, "we've been an overwhelming success. Over 50 percent of the people take our tour because they've heard about it from somebody else." In 1996, in its second full season of operation, Boston Duck Tours carried 250,000 riders, with revenues of $3.4 million.

Wilson buys his reconditioned ducks from a tour operator in Branson; a merger of the two companies may occur if Wilson succeeds in opening tours in other cities. He particularly likes the prospects in cities with combinations of history and water, like Philadelphia and London. "I'm a dreamer," he says, "but I'm a dreamer who gets things done." ■

A Goal Of Her Own

By Sharon Nelton

Kanta "Kay" Kuba was a University of Minnesota research biochemist with three nearly grown children when she decided it was time to do something else.

"I always wanted to try something of my own, to be able to create something, to be able to say I did it on my own, and to be able to take it to the top as far as I could," recalls the India-born Kuba.

That something today is GCI Systems, a $10 million-a-year computer reseller in New Brighton, Minn., a St. Paul suburb. The 34-employee company provides computer equipment, networking, and technical services to large and medium-sized companies in the Minneapolis-St. Paul area. This year the firm garnered a $10 million contract with General Mills that might help GCI double its annual revenues by next year. Other clients include Honeywell Inc. and Medtronic, Inc.

Kuba, 55, started the company as Global Computronics Inc. in 1988 with $35,000 in personal savings. At first, it was a mail-order and retail operation in Minneapolis. But when mass merchandisers such as Comp USA and Circuit City began to move in, Kuba found that her customers would come to her for information but then go to the larger stores for the lower prices.

She decided to shift her focus, going after medium-sized companies. She spent two years winding down the retail operation, seeking business clients, and qualifying to become an authorized dealer for big-name manufacturers such as Apple, Compaq, Epson, Hewlett-Packard, IBM, and NEC.

She grew more successful as she learned that she had to find out what her corporate clients needed and what they expected of her. Then she concentrated on living up to their expectations.

PHOTO: STEVE WOIT

After building *her computer-support company from the ground up, Kay Kuba—with her son, Sanjay, and daughter Anita—would like to keep the firm in the family.*

When she understood she could succeed with the medium-sized companies, she knew she could go on to the next level, working with major corporations. She moved the company from Minneapolis to a 4,500-square-foot space in New Brighton and changed the name to GCI Systems, hoping that people would come to think of it "as a high-end computer-support company," says Kuba.

Once again, she is competing with large dealers, and price is still an issue—though not the only one. "I don't do business if it's only price that will bring me into a company, because I know I won't be successful," she says. The margins are just too low. She prefers client companies for whom she can bring knowledge to the end users and prepare them for the technological changes that are around the corner.

When she started her business, Kuba says, "I found out that I had technical capabilities I didn't know I had. I also had some sales capabilities that I didn't know I had."

She learned about running a business with the help of programs offered by the Metropolitan Economic Development Association, a local organization that fosters minority business, and she learned about computers largely by reading.

Kuba, whose husband, Ramesh, is a dentist, would like to see GCI stay in the family. Son Sanjay, an electrical engineer, is vice president. Daughter Vaneeta, who lives in San Francisco and has an MBA in finance, is the chief financial officer. Anita, the youngest, has worked in the company but is now studying for an MBA.

Kuba recognizes that having customers as large as General Mills and Honeywell means change for GCI. It has been a local company, but it's beginning to work on a national scale to meet the needs of its giant clients. But, says Kuba, "we're always ready for change." NB

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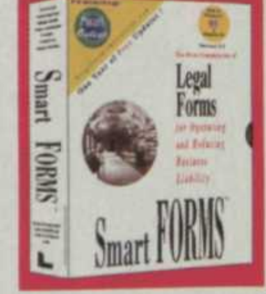

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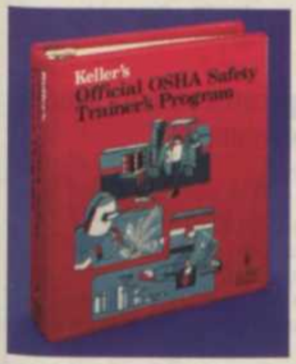

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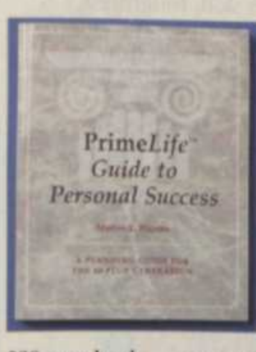

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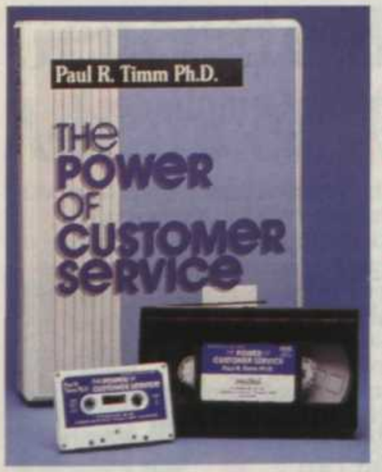

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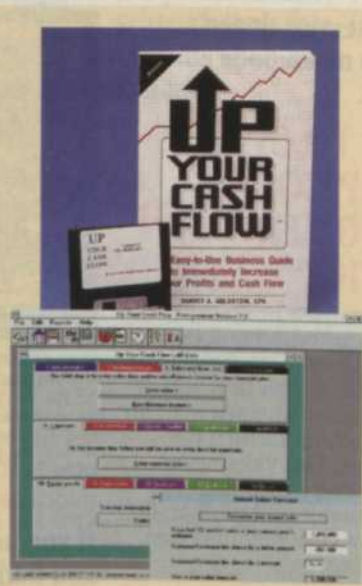

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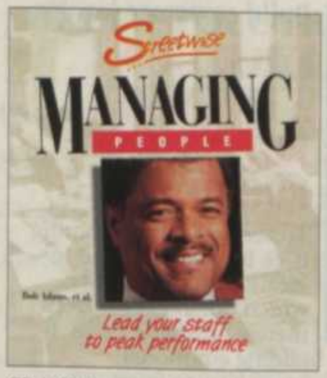

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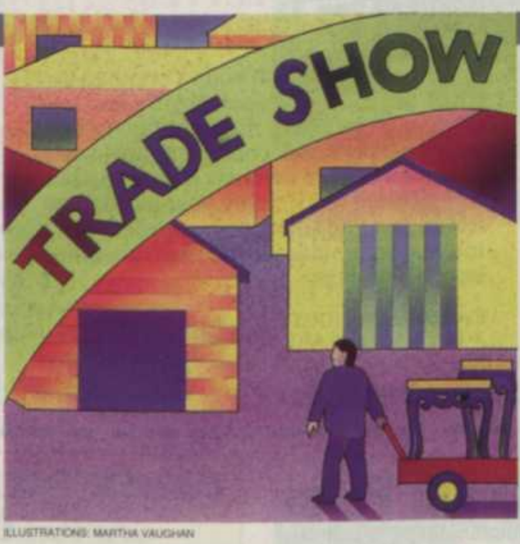
Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

MARKETING

Furnishing Sales



ILLUSTRATIONS: MARTHA VAUGHAN

I have a manufacturing facility where I make iron-rod furniture with wood tops. I'm interested in selling these items to some of the big home-furnishing stores. How can I approach the buyers for these companies? Where can I display my products?
E.T., Aurora, Colo.

Sales in the home-furnishings industry totaled $49 billion nationwide in 1995, the latest year for which figures are available, according to the National Home Furnishings Association (NHFA).

The NHFA (910-883-1650), which represents large home-furnishings retailers, is one of the three major furniture trade groups in the United States; all are in High Point, N.C. Another group is the International Home Furnishing Marketing Association, or IHFMA (910-889-0203), which sponsors the world's largest annual home-furnishings trade show, also in High Point.

The third group is the American Furniture Manufacturers Association (AFMA), which can be reached at (910) 884-5000. To qualify for membership in the AFMA, a furniture maker must be an incorporated business, must be manufacturing furniture within the United States, and must have been in business for at least a year.

The AFMA's services include management training, industry information and surveys, and lobbying and government affairs. Membership fees vary by size of operation, with a minimum fee of $605 per year, according to AFMA spokeswoman Nancy High.

High says that furniture is marketed to U.S. retailers "almost exclusively" at trade shows, where buyers can closely inspect products they might want to carry in their stores. "Retailers that are shopping [for products] want to touch it, sit in it, look at the finish," she says. "These are things you can't do just looking at a photograph."

Major regional trade shows for furniture manufacturers are held each year in Florida, Mississippi, California, and Minnesota, and smaller local trade shows are held in various states. Contact the AFMA or the NHFA for more information, dates, and locations.

To reach the greatest number of potential retailers for your product, the international show sponsored by the IHFMA is probably the best bet, if you can afford the time and money. The seven-day event draws about 2,300 furniture manufacturers from around the world and is attended by about 70,000 people. ■

GETTING STARTED

Cookie Commerce

I make some of the greatest cookies around, and I'd like to turn this into a business. How do I begin?
P.S., Stevens Point, Wis.

There are various baking groups, but two that can help small operations are the Independent Bakers Association of America, based in Washington, D.C. (202-333-8190), and the Retailer's Bakery Association in Laurel, Md. (301-725-2149). Membership fees vary by size or type of operation.

Both groups report that their members generally produce a variety of baked goods; neither offers special services just for cookie makers. Both groups can help you identify important regional or national baking shows, however.

As sweet as they may be, cookies can eat you alive if you try to make them your sole source of business revenue, experts warn. The Retailer's Bakery Association put us in touch with Linda Martin, owner of Third Street Bakery in Phillipsburg, Kan. She started many years ago making "expensive cookies" and pies at home. While cookies are "one of our best-selling things," she says, she doesn't depend on them. She also bakes cakes, breads, rolls, and other products. She runs a retail bakery with five employees.

Commercial cookie making involves a lot of details, such as inspection and licensing by the state health department, obtaining insurance, finding quality ingredients at affordable prices, and controlling labor costs while producing the right kind of cookie dough—often a very labor-intensive process. (Martin buys frozen dough from a supplier.)

Martin also has to adapt to various consumer preferences (she offers both sugar-free and fat-free cookies, for example) and regional or even local tastes, and she has to be innovative in marketing her products.

She notes that some small cookie makers succeed as suppliers to big wholesale bakers, which distribute the cookies to grocery stores and other outlets. If you want to be a cookie-only baker, she says, you should focus on a major city, where the niche-market potential is bigger.

Martin recommends that anyone planning to get into this kind of kitchen "take the time to write out a business plan and really think that out." The business of cookies, she says, "is really difficult." ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

Breaking The Ice

I preside over a company that sells and installs ice-skating rinks. Our specialization and our state-of-the-art technology have generated an international demand for our products and services. Because of the somewhat unique nature of our business, we are having difficulty finding the proper cost-accounting software to help us "cost out" a project. Where can we go for help?
B.B., Salix, Pa.

Computer programs that handle bookkeeping and financial data have become vital tools for most small businesses. There are more than 500 accounting-software packages on the market—so many, in fact, that the sector is covered by a monthly trade journal, *The CPA Software News*, published in Shawnee, Okla. ($39.95 a year; 1-800-456-0864). It's a good way to learn about and review new programs.

Tawn Allen Rose, editor and publisher of the journal, says the accounting-software sector has grown because of demand for specialized software for specific businesses, such as manufacturers, doctors' offices, insurance companies, and merchants.

Accounting software can be sorted into two categories: basic, off-the-shelf programs that are generally inexpensive; and advanced, customized, and sometimes very costly programs.

The basic programs combine most common accounting functions into a single package, generally cost less than $200, and usually can be obtained in retail stores or directly from the manufacturer. They also are likely to be Windows-based, which many users prefer to the original DOS-based (text) programs. Examples include Quicken, from Intuit, Inc. (1-800-544-1356); One-Write Plus, from Peachtree Software Inc. (1-800-228-0068); and Simply Accounting, from Accpac International (1-800-773-5445).

Some of these basic programs are available in upgraded formats geared for small businesses and provide payroll and invoice capabilities. These include QuickBooks Pro, from Intuit; Peachtree Complete Accounting; and DacEasy Accounting and Payroll, from DacEasy Inc. (1-800-322-3279).

Higher-end systems are made up of interconnecting programs called modules, which perform various functions and can be customized for specific needs. These can be expensive ($1,000 or more per module), generally require a computer network rather than a stand-alone personal computer, and usually are sold and used by accounting firms and consultants. Examples include M*A*S 90, from State of the Art, Inc. (1-800-854-3415); MICA IV, from MICA Accounting Software, Inc. (1-800-448-6422); and Platinum for Windows, from Platinum Software Corp. (1-800-426-0469).

To find specialized software for your company, start with a professional accountant who has experience with such programs.

Also, look for a program that makes it easy to import and export records to other programs—an important feature for growing businesses. NB

Editorial

Protect The Promise Of The New Fiscal Policies

Many key aspects of the new balanced-budget and tax-relief laws will be implemented over several years.

As those laws take effect, it will become increasingly obvious that the significance of the legislation lies not only in its specifics but also in its basic message.

Those specifics are highly impressive: a budget surplus to be achieved by 2002 through the sale of some government assets to the private sector and through cost-cutting steps affecting Medicare, Medicaid, housing, veterans affairs, student loans, and federal retirement programs.

Tax-relief provisions include reductions in the capital-gains tax; a phased-in increase in the health-insurance deduction for the self-employed to 100 percent from the current 40 percent; reductions in the alternative minimum tax; and a phased-in boost in the estate-tax exemption to $1 million, with family-business owners in certain situations receiving an immediate increase to $1.3 million. (See "Business Just Got Less Taxing," Page 24.)

PHOTO ILLUSTRATION: T. MICHAEL KEZA AND ALBERTO PACHECO

Business worked for and has welcomed the combined approach of spending cuts and tax relief. The U.S. Chamber of Commerce, long in the forefront of the sustained drive for the key fiscal goals that have been achieved this year, says the changes "will raise long-term economic growth and improve the climate for businesses and entrepreneurs to compete, grow, and create jobs."

In addition to outlining the details of tax and spending changes, the new laws send a powerful message that American enterprise has awaited for decades: The era of massive budget deficits is over, and the tax system should reward private savings and investment in both human and financial capital.

But business also has a message for Congress: If the promise of these changes is to be realized, you must follow through by protecting what you have already achieved from attempts to diminish cuts in spending or taxes and by taking the additional fiscal-policy steps critical to sustained economic health.

If, for example, the economy falters during the five-year implementation period for the balanced-budget plan, Congress must be willing to impose further spending cuts to offset revenue losses caused by reduced business activity.

Over the same period and beyond, Congress will pass annual funding bills for government operations. Lawmakers must resist any temptation to use those bills to restore spending cuts approved in the 1997 act—no matter how politically rewarding such restorations might be.

The recently enacted plan for deficit reduction calls for appointment of a bipartisan commission to recommend ways to deal with the demands that the retirement of the baby-boom generation will place on Medicare, and Congress must be willing to act not only in this area but also on the broad spectrum of entitlements that pose the greatest threat to budget stability.

The challenge on the tax-relief side of the fiscal-policy changes may be even more difficult than it is on the spending side. Here, the need is not only for protection of tax-relief provisions in the new law but also for additional action to free the economy from the deadening impact of excessive taxation.

The tax and spending policies adopted by Congress this year are among the most important of these closing years of the century. If their implementation schedule is maintained and the additional actions needed to protect and enhance them are taken, those policies can carry the U.S. economy into an era of economic growth fueled by entrepreneurial investment that is not possible when government assumes it has first claim on such resources.

Providing the legislative infrastructure to bring about such an era should not be difficult for a Congress that, as the U.S. Chamber points out, has changed fiscal policy so fast that "we have moved from the largest tax increase in history in 1993 to the largest decrease in spending in 1997." NB

The Business Advocate

SUPPLEMENT TO Nation's Business OCTOBER 1997

Published By
U.S. Chamber of Commerce

New Era Begins

Thomas J. Donohue, the new president and CEO of the U.S. Chamber of Commerce, is setting a fast pace for his tenure as head of the world's largest business federation.

Since Labor Day, his first official day on the job, Donohue has participated in a number of high-profile media interviews about business's contributions to the economy and his plans for the organization. He has also moved swiftly to discuss Chamber members' interests with Republican and Democratic leaders in Congress and other key policymakers in Washington.

"We are going to represent business's interests with vigor

Continued On Page 5A

PHOTO: T. MICHAEL KEZA

Chamber President and CEO Thomas J. Donohue, right, talks with Federal Reserve Board Chairman Alan Greenspan.

Chamber Wins Tax, Budget Cuts

Page 2A

■ Fiscal Policy

Chamber Helps Win Tax Relief, Budget Restraint

The U.S. Chamber of Commerce helped achieve two major long-term goals of its members with the enactment of the historic balanced-budget measure passed by Congress in late July and signed into law by President Clinton on Aug. 5.

The goals were to put the nation on track toward a balanced budget and to win tax relief for businesses.

The budget legislation enacted in August does both.

Two key examples of the Chamber's critical role in the formulation of the new law were its leadership as co-chair of the Coalition for a Balanced Budget and the Coalition to Save Medicare, both based in Washington.

The Chamber also was a key participant in several related coalitions on pension reform and tax relief. Some pension reforms sought by the Chamber were among the business goals realized in the new law.

The Chamber's other budget-related efforts included: testifying before numerous congressional committees over a seven-month period; meeting with key lawmakers and Clinton administration officials about business interests and concerns; activating the business federation's members to make their views known directly to lawmakers; and participating in media briefings and other press events.

"We didn't get everything we wanted for business," says Bruce Josten, the Chamber's executive vice president for government relations, "but we got significant tax relief for our members and a law that puts America on a glide path to a balanced budget and entitlement reform."

The budget law calls for a $204 billion reduction in the federal deficit from fiscal 1998 through fiscal 2002. The reduction is designed to produce a balanced budget in fiscal 2001—the first since 1969—and a surplus of $32 billion the following year, according to projections from the Congressional Budget Office.

At a summer rally on Capitol Hill, Bruce Josten, the U.S. Chamber's executive vice president for government relations, praised lawmakers for approving tax cuts as part of legislation to balance the federal budget.

The tax-reduction package amounts to a $95 billion net tax cut and includes a reduction in the capital-gains rate, reform of the alternative minimum tax (AMT), and an increase in the estate-tax exemption. Pension-law changes make it easier and more beneficial for firms to start and maintain retirement plans.

Martin A. Regalia, vice president and chief economist for the U.S. Chamber, in March urged the House Ways and Means Committee to include tax cuts helpful to businesses in balanced-budget legislation.

The elimination of the deficit is expected to be achieved through about $138 billion in savings from changes to various programs, notably Medicare, the health-care system for the elderly and the long-term disabled. The Medicare changes are expected to yield savings of $115 billion over five years.

Another $138 billion will come from spending cuts in other government programs that are funded through the 13 annual appropriations bills. An additional $14 billion is expected to come from savings on interest payments on the federal debt that should be lower than previously assumed because of deficit reduction.

(For details on the tax cuts and pension-law changes, see Pages 24-28 in the October issue of *Nation's Business*. In this issue, see how your representative voted on a key budget provision on Pages 12A and 13A.)

The Chamber worked especially hard in pressing for the tax cuts and for changes in Medicare to keep the system solvent. Medicare trustees had said that the system would go broke in 2001 unless changes were made in the program.

The Chamber helped eliminate from the budget the provisions that could have increased Medicare costs—so-called anti-managed-care provisions and those that would have increased the age for receiving benefits from 65 to 67.

Among the tax changes most beneficial to Chamber members are:

■ Repeal of the alternative minimum tax for firms that had average annual gross receipts of less than $5 million in 1995, 1996, and 1997 and for those that will have less than $7.5 million in subsequent years. Companies with gross receipts over those amounts will pay less in AMT than they did before because of a change in the recovery periods for assets placed in service after 1998.

■ A cut in the capital-gains-tax rates for individuals, including owners of unincorporated businesses. Capital assets held for at least 18 months after July 28, 1997, will be subject to a maximum rate of 20 percent. The current top rate for individuals is 28 percent. For capital assets purchased after 2000 and held for at least five years, the top rate will be 18 percent.

■ A gradual increase in the exemption for estate taxes from the current $600,000 to $1 million by 2006. An exemption of $1.3 million for "qualified family-owned business interests" will be available beginning in 1998.

■ An increase in the tax deduction for health insurance for the self-employed to 100 percent by 2007. Under current law, the self-employed and unincorporated small businesses can deduct 40 percent, and the deduction had been set to rise to 80 percent by 2006. Large businesses can already deduct 100 percent.

■ Environment

Chamber Sues EPA Over Air Standards

The U.S. Chamber of Commerce is suing the Environmental Protection Agency for issuing clean-air requirements without first assessing their impact on small businesses, as required by law.

On July 18, the Chamber's National Chamber Litigation Center filed a petition for review of the EPA's recent changes to the National Ambient Air Quality Standards, which were issued a day earlier. The petition was filed with the U.S. Court of Appeals for the District of Columbia Circuit, in Washington, D.C.

The court is not expected to act on the petition until early next year.

The Chamber was joined in the action by the American Trucking Associations, the National Coalition of Petroleum Retailers, and three small trucking companies.

Chamber Says EPA Violated Law

The suit contends that the EPA violated the Small Business Regulatory Enforcement Fairness Act in issuing new standards for ozone—a component of smog—and fine particulate matter (PM), or microscopic soot.

The EPA standards could place hundreds of U.S. counties out of compliance with the Clean Air Act, the law under which the new rules were issued, according to environmental-policy analysts who have reviewed the new standards. And that would force restrictions on ozone and PM sources, including small businesses in some industries, says the Chamber.

The small-business regulatory act, passed last year, requires federal agencies to analyze the probable impact of proposed rules on small entities, including small businesses and units of local government. If a regulation would have a significant impact on such entities, an agency must:

■ Describe and estimate the number of entities covered by the rule.

■ Describe the reporting, record-keeping, and compliance requirements of the rule.

■ Identify existing federal regulations that might duplicate, overlap, or conflict with the new rule.

■ Describe alternatives to the rule—including exemption from coverage—that would minimize the economic impact on small entities.

Also under the small-business law, if an agency determines that a rule would have a significant impact on small entities, it must set up review panels to take comments from those parties.

The Chamber and its co-petitioners say the EPA's cost-benefit analysis was flawed. It estimated compliance costs of $9.7 billion a year and health-benefits savings of between $19.4 billion and $106.1 billion annually.

Other estimates, including one by the president's Council of Economic Advisers, put the compliance costs much higher—as much as $60 billion a year just to meet the ozone standard. The council also estimated the health savings would be much lower.

The EPA set the new standards over the objections of its own scientific advisory board and the concerns of numerous governors, mayors, and members of Congress.

"EPA based these irrational rules on a faulty review of current scientific data and over the objections of public officials and even some of its own scientific experts," says NCLC Vice President Robin Conrad. "And it completely ignored the small-business regulatory law."

Legislation Proposes Delay

In related action, members of Congress, led by Sens. James M. Inhofe, R-Okla., and John B. Breaux, D-La., and Reps. Ron Klink, D-Pa., Fred Upton, R-Mich., and Rick Boucher, D-Va., are garnering support for bills that would delay implementation of the new clean-air rules.

The House bill, H.R. 1984, would:

■ Delay the standards for four years.

■ Require the EPA to conduct new studies on ozone and particulate matter.

■ Allocate about $375 million over five years for equipment to monitor air quality more effectively.

The measure has the support of Rep. John D. Dingell, D-Mich., the ranking Democrat on the House Commerce Committee, which has jurisdiction over the clean-air law. The Senate bill, S. 1084, is similar to the House's.

The Chamber supports the measures and is asking its members to call their lawmakers to urge them to support the bills. Dial (202) 224-3121.

Sen. James M. Inhofe, R-Okla., left, and Rep. Ron Klink, D-Pa., right, discuss their proposals to delay implementation of new EPA air-quality standards with Bruce Josten, the U.S. Chamber's executive vice president for government relations. The Chamber is suing the EPA over the standards.

■ Seminars

Microsoft Teams With Chamber

Microsoft Corp. and the U.S. Chamber of Commerce will present a series of conferences and expositions on technologies that can help small businesses remain competitive.

The events will be held this year and in 1998 in 30 cities nationwide. The first conference/expo is scheduled for Oct. 28 at the Washington Convention Center in Washington, D.C.

The one-day events will feature educational sessions on current and emerging technology issues and will showcase the latest technology applications for small business.

Dates, cities, and locations for the conferences/expos for the remainder of this year are:

■ Nov. 6, New York, Coliseum.

■ Nov. 25, Chicago, Merchandise Mart.

■ Dec. 10, Los Angeles, Convention Center.

Events for 1998 will be announced in the December issue of *The Business Advocate*.

For more information about the conferences/expos, call (201) 346-1422.

■ Transportation

More Money Sought For Highway Spending

The U.S. Chamber of Commerce is backing an effort by Rep. Bud Shuster, R-Pa., to increase spending on highways, bridges, and mass transit over the next three years.

In early September, Shuster, chairman of the House Transportation and Infrastructure Committee, introduced legislation to reauthorize highway and mass transit construction under a law known as ISTEA, the Intermodal Surface Transportation Efficiency Act of 1991. His bill would substantially increase, from the $22 billion level recently set by the House and Senate in the budget reconciliation act, the amount of money that goes annually into the federal Highway Trust Fund.

PHOTO: T. MICHAEL KEZA

Rep. Bud Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee, laid out his plan for reauthorizing the Intermodal Surface Transportation Efficiency Act at a Policy Insiders Group meeting at the Chamber in late July.

Most of that revenue comes from motor vehicle fuel taxes.

ISTEA, which expires Sept. 30, sets transportation priorities and requests spending amounts, which are then set through the congressional appropriations process. The funds help states finance crucial transportation projects.

Shuster wants to spend $26 billion on highways in fiscal 1998, $28 billion in 1999, and $33 billion in 2000—levels that he maintains can be funded from the Highway Trust Fund.

The highway fund received about $31.5 billion in 1996, and an additional $6.5 billion a year will be available for highway spending starting in fiscal 1998 now that a 4.3-cents-per-gallon tax on gas that was imposed in 1993 and earmarked specifically for federal deficit reduction has been designated for the highway fund.

But in late July, the House and Senate passed appropriations bills that would allow spending of just $23.2 billion and $23.6 billion, respectively, in fiscal 1998, which begins Oct. 1. Only part of the money would come from the Highway Trust Fund. Differences between the two measures are expected to be reconciled in September.

The House-Senate balanced-budget resolution called for just $125 billion in highway spending over five years, from fiscal 1998 through fiscal 2002.

Shuster prefers a three-year ISTEA reauthorization bill that would seek to spend an average of $30 billion a year on highways; he announced his plans to business leaders at a meeting at the Chamber on July 30.

■ China's Trade Status

PHOTO: LAURENCE L. LEVIN

Reps. Jim Kolbe, R-Ariz., left, and Calvin Dooley, D-Calif., center, discussed the importance of renewing China's most-favored-nation (MFN) trade status with Myron Brilliant, the Chamber's director of Asia trade policy, shortly before a vote on a measure that would have denied MFN status to China. The House voted 259-173 in late June against the measure. (See the listing starting on Page 8A to learn how your representative voted.)

■ **Leadership**

Donohue Takes Command

Continued From Page 1A

and with high energy," said Donohue. "No matter what the issue is, we are going to let people know where business stands, because business is what makes this country work."

In his Labor Day message, Donohue stated: "This day is not only a time to celebrate the efforts of those who do the jobs, but also the millions of companies that *create* the jobs."

Other activities on Labor Day weekend included interviews on a number of radio programs, including "The Mary Matalin Show," and an appearance on "The McLaughlin Group" television debate show.

Profiles on Donohue have appeared in *Business Week*, *The Washington Post*, and *The New York Times*; the Associated Press also distributed a story on him.

Among the congressional leaders Donohue met with in early September to discuss the Chamber's agenda were Senate Majority Leader Trent Lott, R-Miss.; Senate Minority Leader Thomas A. Daschle, D-S.D.; House Speaker Newt Gingrich, R-Ga.; and House Majority Leader Richard K. Armey, R-Texas.

Donohue also met with Federal Reserve Chairman Alan Greenspan to discuss issues of concern to small and large businesses.

Trade was the issue when Donohue met Sept. 9 with Tung Chee Hwa, who became the chief executive of Hong Kong this summer when Britain turned over control of it to China on July 1. Tung delivered his first major U.S. address that day to business leaders at the Chamber's International Forum.

To begin strengthening relations with local chambers and other business groups, Donohue conducted meetings with some of the organizations in September. Among them were the executive committee of the Fairfax County (Va.) Chamber of Commerce and members of the Business Women's Network, a Washington-based umbrella organization of women's business and professional groups.

Donohue also met with AFL-CIO President John Sweeney to discuss areas of common interest between business and organized labor such as sensible environmental policies based on sound science.

The new Chamber president has already put into place a plan to hire more lobbyists and policy experts to increase the organization's clout on Capitol Hill.

In moves to enhance the Chamber's research efforts, Donohue met with leaders of the Heritage Foundation, a Washington-based public-policy research organization, and the Hudson Institute, one of the country's leading research and forecasting organizations.

Donohue is scheduled to visit Atlanta; Austin, Texas; and Denver as part of a national tour of 40 cities to strengthen the Chamber's ties to companies and business and trade organizations.

Donohue took over the reins of the Chamber from Richard L. Lesher, who guided the business federation for 22 years.

Before joining the Chamber, Donohue was president and CEO for 13 years at the American Trucking Associations, based in Alexandria, Va.

Thomas J. Donohue, left, the new president and CEO of the U.S. Chamber, discussed trade issues with Tung Chee Hwa, the new chief executive of Hong Kong, who visited the Chamber in September.

U.S. Chamber President and CEO Thomas J. Donohue, right in both photos, met recently with a number of congressional leaders, including Senate Majority Leader Trent Lott, R-Miss., in top photo, and Rep. Charles W. Stenholm, D-Texas, to discuss Chamber members' interests.

■ Litigation

Chamber Wins Supreme Court Cases

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, recently scored two significant Supreme Court victories for business.

■ Computer Communications

In *Janet Reno, Attorney General of the United States vs. American Civil Liberties Union*, the Supreme Court agreed with the NCLC in ruling that the Communications Decency Act (CDA) is unconstitutional.

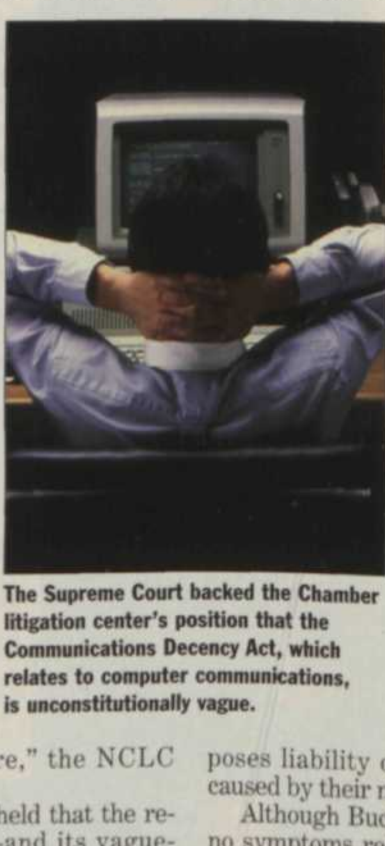
The law was enacted in 1996 as part of legislation deregulating the telecommunications industry; the intent of Congress in passing the act was to restrict certain communications to minors via computer and other telecommunications devices.

The law made it a felony to display or transmit "indecent" or "patently offensive" material over the Internet or other telecommunications systems "in a manner available" to people under 18 years old. Those who violate the statute can be fined as much as $250,000 and sentenced to jail for up to two years.

In a friend-of-the-court brief filed with the high court, the NCLC stated that the law is unconstitutionally vague. The court agreed and noted that the terms "indecent" and "patently offensive" are not defined in the CDA.

The law also bars the use of an "interactive computer service" to send or display material that "in context, depicts or describes, in terms patently offensive as measured by contemporary community standards, sexual or excretory activities or organs" that could be viewed by individuals younger than 18.

"The statute could apply to a wide range of socially beneficial, interactive computer communications, including subjects such as information about AIDS, breast cancer, [and] serious literature," the NCLC argued.



The Supreme Court backed the Chamber litigation center's position that the Communications Decency Act, which relates to computer communications, is unconstitutionally vague.

The Supreme Court held that the restrictions in the law—and its vagueness—could chill free speech and thus are violations of the Constitution's First Amendment.

Groups challenging the Communications Decency Act, including the Chamber litigation center, addressed only the statute's prohibition against communications that are permissible between adults; they did not address "obscenity," the transmission of which is prohibited under the act.

The NCLC pointed out that businesses are among the largest users of information technology and that companies large and small employ 16- and 17-year-olds who could have access to communications networks.

Said the NCLC: "The Chamber of Commerce of the United States strongly supports the objective of protecting children. Regrettably, however, the act is not crafted with sufficient precision or narrowness to serve the government's asserted objective in a constitutionally permissible manner."

■ Medical Monitoring

The Supreme Court also agreed with the NCLC in reversing a lower-court ruling that allowed individuals who have been exposed to a hazardous substance but show no signs of illness to recover costs for medical monitoring.

The contested ruling had been issued by the 2nd U.S. Circuit Court of Appeals, in New York City.

In the case, *Metro-North Commuter Railroad Co. vs. Buckley*, railroad worker Michael Buckley sued the commuter rail line for negligence under the Federal Employer Liability Act for his three-year exposure to insulation that contained asbestos. The act imposes liability on railroads for injury caused by their negligence.

Although Buckley was not ill and had no symptoms related to exposure to asbestos, the Court of Appeals ruled that in effect he had been injured merely through exposure and therefore should be awarded damages to cover the costs of future medical monitoring.

The Supreme Court disagreed.

In asking the high court to reject the appellate court's reasoning, the NCLC argued in its court brief that "the medical community now recognizes that, while diagnostic testing makes sense for patients *with symptoms* of disease, such testing is generally not beneficial when applied to persons who do *not* have symptoms of illness." It also pointed out that, under common law, a plaintiff must allege actual physical or emotional harm to show negligence.

The Supreme Court's 7-2 majority agreed, noting that "with only a few exceptions, common law courts have denied recovery to those who, like Buckley, are disease- and symptom-free."

■ Labor Board

PHOTO: T. MICHAEL KEZA

U.S. Chamber Vice President Jeffrey H. Joseph told a House government-reform and oversight subcommittee that the agency that oversees U.S. labor laws has been turned into a tool and ally of organized labor. He made his statements at a hearing in late July on the National Labor Relations Board.

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

Legislation Could Improve Workplace Safety And Health

Chamber Calls For OSHA-Reform Measure That Helps Firms Comply With Law

The U.S. Chamber of Commerce is again calling on Congress to overhaul the Occupational Safety and Health Act of 1970.

"Reform legislation is needed to get the Occupational Safety and Health Administration once again focused on helping businesses, particularly small companies, have safer and more healthful workplaces," says Peter Eide, labor-law attorney for the Chamber.

"Unfortunately," says Eide, "the agency has gotten away from its mission and has instead concentrated on fining employers and on promulgating new workplace regulations that do little or nothing to enhance worker safety and health."

The Chamber is analyzing three bills introduced in the Senate. Each would make changes in the existing law governing workplace safety and health to establish more cooperation among employers, employees, and OSHA, which oversees the statute. The measures are sponsored by Republicans Judd Gregg of New Hampshire, Kay Bailey Hutchison of Texas, and Michael B. Enzi of Wyoming.

A consensus bill is likely to be crafted following hearings on the three measures this fall in the Senate Labor and Human Resources Committee. No measure to reform the health and safety law has been introduced in the House this year.

All three Senate bills would, among other provisions:

■ Exempt employers from OSHA inspections if they have been inspected by a third-party consultant that has been certified by the U.S. Department of Labor.

■ Prohibit OSHA from using information from in-house or third-party safety and health audits against employers.

■ Exempt employers from routine OSHA inspections if they meet the criteria of the existing OSHA Voluntary Protection Program, which sets minimum standards for workplace safety-and-health programs.

■ Allow employers to establish employer-employee safety and health committees. Currently, under the National Labor Relations Act, employers are forbidden from setting up such labor-management committees.

■ Place more responsibility on employees who violate safety and health regulations.

Under the Gregg and Hutchison bills, an employer would have a defense against an OSHA citation for an employee's actions if the worker had been properly trained, if work rules were communicated and enforced, and if the employee's failure to follow the work rules caused an OSHA violation. Enzi's measure would allow OSHA to fine workers up to $500 for willful violations of the safety and health act.

■ Require that a portion of OSHA's annual budget be used to educate employers about workplace safety and health, to enhance consultation programs, and for OSHA outreach efforts.

The Gregg and Enzi bills call for at least 15 percent of OSHA's funds to be used for such purposes; the Hutchison bill mandates that at least 25 percent be spent on helping small businesses and companies in hazardous industries, such as chemical manufacturing.

In addition to those provisions, the Hutchison legislation, S. 461, known as the Occupational Safety and Health Reform Act of 1997, would exempt from random OSHA inspections farms that have fewer than 50 workers and businesses with fewer than 50 employees in industries that have injury rates below the national average.

The bill also calls for OSHA standards to be reviewed every two years and for OSHA inspectors to be knowledgeable about the industries they inspect and the hazards they might encounter. Hutchison's measure also would require an OSHA fine to be reduced by 25 percent if a cited employer had a safety-and-health program or had an "exemplary" safety record. If the employer had both, a fine would have to be cut in half.

Under Gregg's OSHA Modernization Act of 1997, S. 551, small firms in "low-hazard" industries and farms with 10 or fewer workers would be exempt from routine OSHA inspections.

His legislation would allow OSHA to issue a warning to an employer instead of a citation if a violation "has no significant

Continued On Page 10A

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

Contact Lawmakers About Vote On China Trade Status

The U.S. Chamber of Commerce is urging its members to thank representatives who voted against a measure that would have denied normal trade status to China.

The measure would have overturned President Clinton's May 29 decision to renew China's most-favored-nation (MFN) status from July 1, 1997, through June 30, 1998. MFN status is routinely granted to most of the nations with which the United States trades, and the Chamber strongly supported renewal.

Among the federation's efforts to support MFN renewal was testimony in mid-June by John Howard, the Chamber's director of international policy and programs, before the House Ways and Means Subcommittee on Trade.

The House voted 259-173 on June 24 to reject the measure that would have denied MFN for China.

Representatives may be reached by calling the Capitol switchboard at (202) 225-3121 or by writing them at the U.S. House of Representatives, Washington, D.C. 20515.

John Howard

Voted To Renew MFN

ALABAMA
1 Callahan (R)
5 Cramer (D)
6 Bachus (R)

ALASKA
AL Young (R)

ARIZONA
1 Salmon (R)
2 Pastor (D)
3 Stump (R)
4 Shadegg (R)
5 Kolbe (R)
6 Hayworth (R)

ARKANSAS
1 Berry (D)
2 Snyder (D)
3 Hutchinson (R)

CALIFORNIA
1 Riggs (R)
2 Herger (R)
3 Fazio (D)
5 Matsui (D)
10 Tauscher (D)
14 Eshoo (D)
15 Campbell (R)
16 Lofgren (D)
17 Farr (D)
19 Radanovich (R)
20 Dooley (D)
21 Thomas (R)
22 Capps (D)
23 Gallegly (R)
24 Sherman (D)
25 McKeon (R)
28 Dreier (R)
30 Becerra (D)
31 Martinez (D)
32 Dixon (D)
33 Roybal-Allard (D)
36 Harman (D)
37 Millender-McDonald (D)
40 Lewis (R)
41 Kim (R)
42 Brown (D)
43 Calvert (R)
48 Packard (R)
49 Bilbray (R)
50 Filner (D)
51 Cunningham (R)

COLORADO
1 DeGette (D)
2 Skaggs (D)
6 Schaefer (R)

CONNECTICUT
1 Kennelly (D)
4 Shays (R)
6 Johnson (R)

DELAWARE
AL Castle (R)

FLORIDA
2 Boyd (D)
3 Brown (D)
5 Thurman (D)
7 Mica (R)
8 McCollum (R)
9 Bilirakis (R)
10 Young (R)
11 Davis (D)
12 Canady (R)
13 Miller (R)
14 Goss (R)
16 Foley (R)
17 Meek (D)
20 Deutsch (D)
22 Shaw (R)

GEORGIA
6 Gingrich (R)
11 Linder (R)

ILLINOIS
1 Rush (D)
5 Blagojevich (D)
8 Crane (R)
10 Porter (R)
11 Weller (R)
13 Fawell (R)
14 Hastert (R)
15 Ewing (R)
16 Manzullo (R)
18 LaHood (R)
19 Poshard (D)
20 Shimkus (R)

INDIANA
2 McIntosh (R)
3 Roemer (D)
5 Buyer (R)
7 Pease (R)
9 Hamilton (D)

IOWA
1 Leach (R)
2 Nussle (R)
3 Boswell (D)
5 Latham (R)

KANSAS
1 Moran (R)
2 Ryun (R)
3 Snowbarger (R)

KENTUCKY
1 Whitfield (R)
3 Northup (R)
6 Baesler (D)

LOUISIANA
1 Livingston (R)
2 Jefferson (D)
3 Tauzin (R)
4 McCrery (R)
5 Cooksey (R)
6 Baker (R)
7 John (D)

MAINE
1 Allen (D)
2 Baldacci (D)

MARYLAND
1 Gilchrest (R)
8 Morella (R)

MASSACHUSETTS
2 Neal (D)
3 McGovern (D)
5 Meehan (D)
9 Moakley (D)

MICHIGAN
2 Hoekstra (R)
3 Ehlers (R)
4 Camp (R)
8 Stabenow (D)
11 Knollenberg (R)
12 Levin (D)
14 Conyers (D)
16 Dingell (D)

MINNESOTA
1 Gutknecht (R)
2 Minge (D)
3 Ramstad (R)
6 Luther (D)
7 Peterson (D)
8 Oberstar (D)

MISSISSIPPI
1 Wicker (R)

MISSOURI
2 Talent (R)
4 Skelton (D)
5 McCarthy (D)
8 Emerson (R)
9 Hulshof (R)

MONTANA
AL Hill (R)

NEBRASKA
1 Bereuter (R)
2 Christensen (R)
3 Barrett (R)

NEW HAMPSHIRE
1 Sununu (R)
2 Bass (R)

NEW JERSEY
1 Andrews (D)
3 Saxton (R)
5 Roukema (R)
7 Franks (R)
11 Frelinghuysen (R)

NEW MEXICO
2 Skeen (R)
3 Redmond (R)

NEW YORK
2 Lazio (R)
5 Ackerman (D)
6 Flake (D)
7 Manton (D)
9 Schumer (D)
10 Towns (D)
14 Maloney (D)
15 Rangel (D)
16 Serrano (D)
18 Lowey (D)
19 Kelly (R)
21 McNulty (D)
23 Boehlert (R)
24 McHugh (R)
25 Walsh (R)
28 Slaughter (D)
29 LaFalce (D)
30 Quinn (R)
31 Houghton (R)

NORTH CAROLINA
2 Etheridge (D)
4 Price (D)
6 Coble (R)
10 Ballenger (R)
11 Taylor (R)

NORTH DAKOTA
AL Pomeroy (D)

OHIO
1 Chabot (R)
2 Portman (R)
4 Oxley (R)
8 Boehner (R)
14 Sawyer (D)
15 Pryce (R)
16 Regula (R)
18 Ney (R)
19 LaTourette (R)

OKLAHOMA
1 Largent (R)
3 Watkins (R)
5 Istook (R)
6 Lucas (R)

OREGON
1 Furse (D)
2 Smith (R)
3 Blumenauer (D)
5 Hooley (D)

PENNSYLVANIA
1 Foglietta (D)
2 Fattah (D)
5 Peterson (R)
6 Holden (D)
7 Weldon (R)
8 Greenwood (R)
9 Shuster (R)
10 McDade (R)
11 Kanjorski (D)
12 Murtha (D)

13 Fox (R)
15 McHale (D)
16 Pitts (R)
17 Gekas (R)
18 Doyle (D)
21 English (R)

SOUTH DAKOTA
AL Thune (R)

TENNESSEE
1 Jenkins (R)
5 Clement (D)
7 Bryant (R)
8 Tanner (D)
9 Ford (D)

TEXAS
1 Sandlin (D)
2 Turner (D)
3 Johnson, S. (R)
4 Hall (D)
5 Sessions (R)
7 Archer (R)
8 Brady (R)
9 Lampson (D)
10 Doggett (D)
11 Edwards (D)
12 Granger (R)
13 Thornberry (R)
14 Paul (R)
15 Hinojosa (D)
16 Reyes (D)
17 Stenholm (D)
18 Jackson-Lee (D)
19 Combest (R)
21 Smith (R)
22 DeLay (R)
23 Bonilla (R)
24 Frost (D)
25 Bentsen (D)
26 Armey (R)
27 Ortiz (D)
28 Rodriguez (D)
29 Green (D)
30 Johnson, E.B. (D)

UTAH
1 Hansen (R)
3 Cannon (R)

VIRGINIA
1 Bateman (R)
2 Pickett (D)
6 Goodlatte (R)
7 Bliley (R)
8 Moran (D)
9 Boucher (D)
11 Davis (R)

WASHINGTON
1 White (R)
2 Metcalf (R)
4 Hastings (R)
5 Nethercutt (R)
6 Dicks (D)
7 McDermott (D)
8 Dunn (R)
9 Smith, A. (D)

WEST VIRGINIA
2 Wise (D)

WISCONSIN
1 Neumann (R)
3 Kind (D)
4 Kleczka (D)
5 Barrett (D)
6 Petri (R)
8 Johnson (D)

Voted To Deny MFN

ALABAMA
2 Everett (R)
3 Riley (R)
4 Aderholt (R)
7 Hilliard (D)

ARKANSAS
4 Dickey (R)

CALIFORNIA
4 Doolittle (R)
6 Woolsey (D)
7 Miller (D)
8 Pelosi (D)
9 Dellums (D)
11 Pombo (R)
12 Lantos (D)
13 Stark (D)
18 Condit (D)
26 Berman (D)
27 Rogan (R)
29 Waxman (D)
34 Torres (D)
35 Waters (D)
38 Horn (R)
39 Royce (R)
44 Bono (R)
45 Rohrabacher (R)
46 Sanchez (D)
52 Hunter (R)

COLORADO
3 McInnis (R)
4 Schaffer (R)
5 Hefley (R)

CONNECTICUT
2 Gejdenson (D)
3 DeLauro (D)
5 Maloney (D)

FLORIDA
1 Scarborough (R)
4 Fowler (R)
6 Stearns (R)
15 Weldon (R)
18 Ros-Lehtinen (R)
19 Wexler (D)
21 Diaz-Balart (R)
23 Hastings (D)

GEORGIA
1 Kingston (R)
2 Bishop (D)
3 Collins (R)
4 McKinney (D)
5 Lewis (D)
7 Barr (R)
8 Chambliss (R)
9 Deal (R)
10 Norwood (R)

HAWAII
1 Abercrombie (D)
2 Mink (D)

IDAHO
1 Chenoweth (R)
2 Crapo (R)

ILLINOIS
2 Jackson (D)
3 Lipinski (D)
4 Gutierrez (D)
6 Hyde (R)
7 Davis (D)
12 Costello (D)
17 Evans (D)

INDIANA
1 Visclosky (D)
4 Souder (R)
6 Burton (R)
8 Hostettler (R)
10 Carson (D)

IOWA
4 Ganske (R)

KANSAS
4 Tiahrt (R)

KENTUCKY
2 Lewis (R)
4 Bunning (R)
5 Rogers (R)

MARYLAND
2 Ehrlich (R)
3 Cardin (D)
4 Wynn (D)
5 Hoyer (D)
6 Bartlett (R)
7 Cummings (D)

MASSACHUSETTS
1 Olver (D)
4 Frank (D)
6 Tierney (D)
7 Markey (D)
8 Kennedy II (D)
10 Delahunt (D)

MICHIGAN
1 Stupak (D)
5 Barcia (D)
6 Upton (R)
7 Smith (R)
9 Kildee (D)
10 Bonior (D)
13 Rivers (D)
15 Kilpatrick (D)

MINNESOTA
4 Vento (D)
5 Sabo (D)

MISSISSIPPI
2 Thompson (D)
3 Pickering (R)
4 Parker (R)
5 Taylor (D)

MISSOURI
1 Clay (D)
3 Gephardt (D)
6 Danner (D)
7 Blunt (R)

NEVADA
1 Ensign (R)
2 Gibbons (R)

NEW JERSEY
2 LoBiondo (R)
4 Smith (R)
6 Pallone (D)
8 Pascrell (D)
9 Rothman (D)
10 Payne (D)
12 Pappas (R)
13 Menendez (D)

NEW YORK
1 Forbes (R)
3 King (R)
4 McCarthy (D)
8 Nadler (D)
11 Owens (D)
12 Velazquez (D)
13 Molinari (R)
17 Engel (D)
20 Gilman (R)
22 Solomon (R)
26 Hinchey (D)
27 Paxon (R)

NORTH CAROLINA
1 Clayton (D)
3 Jones (R)
5 Burr (R)
7 McIntyre (D)
8 Hefner (D)
9 Myrick (R)
12 Watt (D)

OHIO
3 Hall (D)
5 Gillmor (R)
6 Strickland (D)
7 Hobson (R)
9 Kaptur (D)
10 Kucinich (D)
11 Stokes (D)
12 Kasich (R)
13 Brown (D)
17 Traficant (D)

OKLAHOMA
2 Coburn (R)
4 Watts (R)

OREGON
4 DeFazio (D)

PENNSYLVANIA
3 Borski (D)
4 Klink (D)
14 Coyne (D)
19 Goodling (R)
20 Mascara (D)

RHODE ISLAND
1 Kennedy (D)
2 Weygand (D)

SOUTH CAROLINA
1 Sanford (R)
2 Spence (R)
3 Graham (R)
4 Inglis (R)
5 Spratt (D)
6 Clyburn (D)

TENNESSEE
2 Duncan (R)
3 Wamp (R)
4 Hilleary (R)
6 Gordon (D)

TEXAS
6 Barton (R)
20 Gonzalez (D)

UTAH
2 Cook (R)

VERMONT
AL Sanders (I)

VIRGINIA
3 Scott (D)
4 Sisisky (D)
5 Goode (D)
10 Wolf (R)

WASHINGTON
3 Smith, L. (R)

WEST VIRGINIA
1 Mollohan (D)
3 Rahall (D)

WISCONSIN
2 Klug (R)
7 Obey (D)
9 Sensenbrenner (R)

WYOMING
AL Cubin (R)

Did Not Vote

CALIFORNIA
47 Cox (R)

ILLINOIS
9 Yates (D)

NEW MEXICO
1 Schiff (R)

Continued From Page 7A

relationship to employee safety or health" or if the employer acts in good faith to correct violations other than those that are willful or repeated.

It would reduce the maximum fine for a nonserious violation from $7,000 to $100 and would eliminate fines for paperwork violations unless they were willful or repeated.

Among the provisions unique to Enzi's bill—S. 765, the Safety and Health Advancement Act—are changes that would require OSHA to submit proposed final safety and health regulations to the National Academy of Sciences for review. Other provisions would require OSHA inspectors to receive ongoing professional education and training every five years.

Call your senators and urge them to take action on a comprehensive OSHA-reform bill to improve workplace safety and health. Ask your representative to work to reform OSHA. Lawmakers can be reached through the Capitol switchboard at (202) 224-3121.

Chamber-Backed Bills Would Protect Firms That Use Environmental Audits

Legislation that would encourage states to help businesses better comply with environmental laws and to improve environmental protections further has won the backing of the U.S. Chamber of Commerce.

The bills were introduced during the summer in the House by Rep. Joel Hefley, R-Colo., and in the Senate by Majority Leader Trent Lott, R-Miss., and Sen. Kay Bailey Hutchison, R-Texas.

The measures, H.R. 1884 and S. 866, respectively, would encourage companies to use voluntary environmental self-audits by protecting information from such audits from being used by the Environmental Protection Agency to fine or prosecute firms.

The legislation would apply only to states that have passed their own laws protecting firms that conduct environmental self-audits from fines and/or prosecution from state regulators. The intent is to provide additional assurance that companies will not ultimately be penalized by the EPA for their efforts to review, assess, and evaluate their operations and correct problems they may discover.

Currently, 24 states have enacted audit laws, and many others are considering such legislation.

Most of the state audit laws provide qualified protection for audit documents and grant a penalty waiver to companies that both voluntarily disclose the environmental violations they discover and promptly correct problems.

Environmental self-audits are used by companies to determine the impact of their operations on the environment, to troubleshoot for potential environmental problems, and to ensure that the business is complying with environmental laws and regulations.

Audits include inspections of equipment to ensure that permit requirements are being met, assessments of the risks of materials used at a facility, and assessments of day-to-day operations of a company's environmental-management structures and resources.

Many businesses forgo performing such audits, however, because of concern that information gleaned might be used by the EPA to impose fines or by the EPA or third parties, such as environmental groups, to file suit for violations of environmental laws or rules.

Currently, the EPA can file separate federal enforcement actions against a company for violations discovered during a self-audit despite the protections granted by the states. This practice, known as "over-filing," brings legal uncertainty into the audit process and guts the effectiveness of the state laws, says Charles Ingram, the U.S. Chamber's associate manager of environment policy.

EPA over-filings have occurred despite the agency's professed support for self-audits, notes Ingram. The agency issued a policy in 1995 emphasizing that self-audits are critical to achieving environmental-protection goals, and it granted limited reductions in fines if a business voluntarily audits, discloses information about any violations, and corrects any problems.

But the EPA opposes the states granting businesses privilege on information in audit documents and immunity from penalties. "The agency is reluctant to give up its power to negotiate fines in cases where audit laws may protect disclosure," says Ingram.

He says the agency has attempted to control the states' audit process by threatening to revoke or deny states' authority to run federal environmental programs and by filing duplicative enforcement actions where the agency believes states are not sufficiently punitive against a company.

In addition to the opposition from the EPA, the protections in states' audit programs are opposed by environmental groups, which argue that the inability to use audit documents obstructs federal and/or state inspections, enforcement actions, and citizen suits.

They believe that audit reports will shield otherwise punishable wrongdoing and that additional federal enforcement and stronger penalties and fines are needed to assess and measure compliance with environmental laws and regulations.

The Hefley and the Lott-Hutchison bills, awaiting hearings in the Judiciary committees in the House and the Senate, would preclude the EPA from using information from self-audits in enforcement actions against companies.

The Chamber believes that if a company discovers a violation in the course of a self-audit, promptly corrects the problem, and takes measures to prevent a recurrence, there should be no liability for the violation. Firms that intentionally violate environmental laws, however, should not be protected, says the business federation.

Says the Chamber's Ingram: "Audits allow states to establish cooperative relationships with companies instead of the current adversarial enforcement system. Taxpayers get a better return on their tax dollars because enforcement resources can be directed toward 'bad actors' who are not following the law. Most importantly, everyone benefits from greater compliance with our environmental laws." GU

■ Victory

House Took Key Vote On Tax Cuts

The most important action on the $95 billion tax-relief bill signed into law Aug. 5 by President Clinton didn't occur July 31—the day the House approved the law 389-43 and the Senate passed it 92-8.

The key vote on taxes, according to Lonnie Taylor, the U.S. Chamber's vice president for congressional affairs, took place June 26. That day, 226 of the 228 House Republicans and 27 of the 206 Democrats voted for the House version of the tax-cut measure. The House's single Independent member, Bernard Sanders of Vermont, voted against the bill. The vote was 253-179.

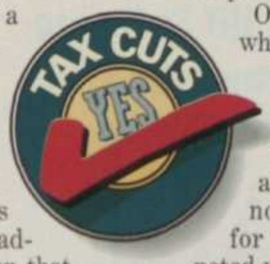
Three House members—Reps. Steven Schiff, R-N.M., Sydney R. Yates, D-Ill., and Marty Meehan, D-Mass.—were absent. (Schiff and Yates "paired" their votes for and against the bill, respectively, in a maneuver that enables absent members to record how they would have voted if they were present.) See how your representative voted below.

The Senate later approved a slightly different tax bill, 73-27.

A House-Senate conference panel reconciled the differences, producing a single bill that more closely resembled the House version. And Republican leaders in Congress negotiated with the Clinton administration on the final version that was approved July 31.

(For business-related details on the tax measure, see the story beginning on Page 2A.)

Once the White House agreed to support the tax bill, lawmakers who opposed it in June had no political reason to oppose it in July, says the Chamber's Taylor. "The tough vote was the one in June when the Clinton administration was indicating opposition to many of the tax provisions," he says.



Of the 177 House Democrats who voted against the tax bill in June, 137 switched their positions to support the measure approved on July 31. These lawmakers—and Rep. Meehan, who did not vote in June but voted for the measure in July—are noted with a single asterisk in the listing below.

The Chamber is asking its members to express their appreciation to House members who voted for the tax bill in June and to ask their lawmakers, if they voted against the measure in June, to explain why. Call the Capitol switchboard at (202) 225-3121.

KEY HOUSE TAX-CUT VOTE

VOTED FOR

ALABAMA
1 Callahan (R)
2 Everett (R)
3 Riley (R)
4 Aderholt (R)
5 Cramer (D)
6 Bachus (R)

ALASKA
AL Young (R)***

ARIZONA
1 Salmon (R)
3 Stump (R)
4 Shadegg (R)
5 Kolbe (R)
6 Hayworth (R)

ARKANSAS
3 Hutchinson (R)
4 Dickey (R)

CALIFORNIA
1 Riggs (R)
2 Herger (R)
4 Doolittle (R)
11 Pombo (R)
18 Condit (D)
19 Radanovich (R)
20 Dooley (D)
21 Thomas (R)
23 Gallegly (R)
24 Sherman (D)
25 McKeon (R)
27 Rogan (R)
28 Dreier (R)
36 Harman (D)
38 Horn (R)
39 Royce (R)
40 Lewis (R)
41 Kim (R)
43 Calvert (R)
44 Bono (R)
45 Rohrabacher (R)
46 Sanchez (D)
47 Cox (R)
48 Packard (R)
49 Bilbray (R)
51 Cunningham (R)
52 Hunter (R)

COLORADO
3 McInnis (R)
4 Schaffer (R)
5 Hefley (R)
6 Schaefer (R)

CONNECTICUT
4 Shays (R)
5 Maloney (D)
6 Johnson (R)

DELAWARE
AL Castle (R)

FLORIDA
1 Scarborough (R)
4 Fowler (R)
6 Stearns (R)
7 Mica (R)
8 McCollum (R)
9 Bilirakis (R)
10 Young (R)
12 Canady (R)
13 Miller (R)
14 Goss (R)
15 Weldon (R)
16 Foley (R)
18 Ros-Lehtinen (R)
21 Diaz-Balart (R)
22 Shaw (R)

GEORGIA
1 Kingston (R)
3 Collins (R)
6 Gingrich (R)
7 Barr (R)
8 Chambliss (R)
9 Deal (R)
10 Norwood (R)
11 Linder (R)

IDAHO
1 Chenoweth (R)
2 Crapo (R)

ILLINOIS
3 Lipinski (D)
6 Hyde (R)
8 Crane (R)
10 Porter (R)
11 Weller (R)
13 Fawell (R)
14 Hastert (R)
15 Ewing (R)
16 Manzullo (R)
18 LaHood (R)
20 Shimkus (R)

INDIANA
2 McIntosh (R)
3 Roemer (D)
4 Souder (R)
5 Buyer (R)
6 Burton (R)
7 Pease (R)
8 Hostettler (R)

IOWA
1 Leach (R)
2 Nussle (R)
3 Boswell (D)
4 Ganske (R)
5 Latham (R)

KANSAS
1 Moran (R)
2 Ryun (R)
3 Snowbarger (R)
4 Tiahrt (R)

KENTUCKY
1 Whitfield (R)
2 Lewis (R)
3 Northup (R)
4 Bunning (R)
5 Rogers (R)
6 Baesler (D)

LOUISIANA
1 Livingston (R)
3 Tauzin (R)
4 McCrery (R)
5 Cooksey (R)
6 Baker (R)
7 John (D)

MARYLAND
1 Gilchrest (R)
2 Ehrlich (R)
6 Bartlett (R)
8 Morella (R)

MICHIGAN
2 Hoekstra (R)
3 Ehlers (R)
4 Camp (R)
6 Upton (R)
7 Smith (R)
11 Knollenberg (R)

MINNESOTA
1 Gutknecht (R)
3 Ramstad (R)

MISSISSIPPI
1 Wicker (R)
3 Pickering (R)
4 Parker (R)
5 Taylor (D)

MISSOURI
2 Talent (R)
4 Skelton (D)
6 Danner (D)
7 Blunt (R)
8 Emerson (R)
9 Hulshof (R)

MONTANA
AL Hill (R)

NEBRASKA
1 Bereuter (R)
2 Christensen (R)
3 Barrett (R)

NEVADA
1 Ensign (R)
2 Gibbons (R)

NEW HAMPSHIRE
1 Sununu (R)
2 Bass (R)

NEW JERSEY
2 LoBiondo (R)
3 Saxton (R)
4 Smith (R)
5 Roukema (R)
7 Franks (R)
11 Frelinghuysen (R)
12 Pappas (R)

NEW MEXICO
2 Skeen (R)
3 Redmond (R)

NEW YORK
1 Forbes (R)

2 Lazio (R)
3 King (R)
4 McCarthy (D)
13 Molinari (R)
19 Kelly (R)
20 Gilman (R)
22 Solomon (R)
23 Boehlert (R)
24 McHugh (R)
25 Walsh (R)
27 Paxon (R)
30 Quinn (R)
31 Houghton (R)

NORTH CAROLINA
3 Jones (R)
5 Burr (R)
6 Coble (R)
7 McIntyre (D)
9 Myrick (R)
10 Ballenger (R)
11 Taylor (R)

OHIO
1 Chabot (R)
2 Portman (R)
4 Oxley (R)
5 Gillmor (R)
7 Hobson (R)
8 Boehner (R)
12 Kasich (R)
15 Pryce (R)
16 Regula (R)
17 Traficant (D)
18 Ney (R)
19 LaTourette (R)

OKLAHOMA
1 Largent (R)
2 Coburn (R)
3 Watkins (R)
4 Watts (R)
5 Istook (R)
6 Lucas (R)

OREGON
2 Smith (R)

PENNSYLVANIA
5 Peterson (R)
7 Weldon (R)
8 Greenwood (R)
9 Shuster (R)
10 McDade (R)
13 Fox (R)
16 Pitts (R)
17 Gekas (R)
19 Goodling (R)
21 English (R)

SOUTH CAROLINA
1 Sanford (R)
2 Spence (R)
3 Graham (R)
4 Inglis (R)

SOUTH DAKOTA
AL Thune (R)

TENNESSEE
1 Jenkins (R)
2 Duncan (R)
3 Wamp (R)
4 Hilleary (R)
5 Clement (D)
6 Gordon (D)
7 Bryant (R)

TEXAS
1 Sandlin (D)
2 Turner (D)
3 Johnson, S. (R)
4 Hall (D)
5 Sessions (R)
6 Barton (R)
7 Archer (R)
8 Brady (R)
12 Granger (R)
13 Thornberry (R)
14 Paul (R)
19 Combest (R)
21 Smith (R)
22 DeLay (R)
23 Bonilla (R)
26 Armey (R)

UTAH
1 Hansen (R)
2 Cook (R)
3 Cannon (R)

VIRGINIA
1 Bateman (R)
2 Pickett (D)
4 Sisisky (D)
5 Goode (D)
6 Goodlatte (R)
7 Bliley (R)
10 Wolf (R)
11 Davis (R)

WASHINGTON
1 White (R)
2 Metcalf (R)
3 Smith, L. (R)
4 Hastings (R)
5 Nethercutt (R)
6 Dicks (D)
8 Dunn (R)

WISCONSIN
1 Neumann (R)
2 Klug (R)
6 Petri (R)
9 Sensenbrenner (R)

WYOMING
AL Cubin (R)

VOTED AGAINST

ALABAMA
7 Hilliard (D)

ARIZONA
2 Pastor (D)*

ARKANSAS
1 Berry (D)*
2 Snyder (D)*

CALIFORNIA
3 Fazio (D)*
5 Matsui (D)
6 Woolsey (D)*
7 Miller (D)*
8 Pelosi (D)*
9 Dellums (D)
10 Tauscher (D)*
12 Lantos (D)*
13 Stark (D)
14 Eshoo (D)*
15 Campbell (R)
16 Lofgren (D)*
17 Farr (D)*
22 Capps (D)*
26 Berman (D)*
29 Waxman (D)
30 Becerra (D)*
31 Martinez (D)*
32 Dixon (D)*
33 Roybal-Allard (D)*
34 Torres (D)*
35 Waters (D)
37 Millender-McDonald (D)*
42 Brown (D)*
50 Filner (D)

COLORADO
1 Degette (D)*
2 Skaggs (D)*

CONNECTICUT
1 Kennelly (D)*
2 Gejdenson (D)*
3 DeLauro (D)*

FLORIDA
2 Boyd (D)*
3 Brown (D)*
5 Thurman (D)*
11 Davis (D)*
17 Meek (D)*
19 Wexler (D)*
20 Deutsch (D)*
23 Hastings (D)

GEORGIA
2 Bishop (D)*
4 McKinney (D)*
5 Lewis (D)*

HAWAII
1 Abercrombie (D)*
2 Mink (D)*

ILLINOIS
1 Rush (D)
2 Jackson (D)
4 Gutierrez (D)
5 Blagojevich (D)*
7 Davis (D)
12 Costello (D)*
17 Evans (D)*
19 Poshard (D)*

INDIANA
1 Visclosky (D)
9 Hamilton (D)*
10 Carson (D)*

LOUISIANA
2 Jefferson (D)*

MAINE
1 Allen (D)*
2 Baldacci (D)*

MARYLAND
3 Cardin (D)*
4 Wynn (D)*
5 Hoyer (D)*
7 Cummings (D)

MASSACHUSETTS
1 Olver (D)*
2 Neal (D)*
3 McGovern (D)*
4 Frank (D)
6 Tierney (D)*
7 Markey (D)
8 Kennedy (D)*
9 Moakley (D)*
10 Delahunt (D)

MICHIGAN
1 Stupak (D)*
5 Barcia (D)*
8 Stabenow (D)*
9 Kildee (D)*
10 Bonior (D)*
12 Levin (D)*
13 Rivers (D)*
14 Conyers (D)
15 Kilpatrick (D)
16 Dingell (D)*

MINNESOTA
2 Minge (D)*
4 Vento (D)*
5 Sabo (D)*
6 Luther (D)*
7 Peterson (D)*
8 Oberstar (D)

MISSISSIPPI
2 Thompson (D)*

MISSOURI
1 Clay (D)
3 Gephardt (D)
5 McCarthy (D)*

NEW JERSEY
1 Andrews (D)*
6 Pallone (D)*
8 Pascrell (D)*
9 Rothman (D)*
10 Payne (D)
13 Menendez (D)*

NEW YORK
5 Ackerman (D)*
6 Flake (D)*
7 Manton (D)*
8 Nadler (D)*
9 Schumer (D)*
10 Towns (D)
11 Owens (D)*
12 Velazquez (D)
14 Maloney (D)*
15 Rangel (D)*
16 Serrano (D)
17 Engel (D)*
18 Lowey (D)*
21 McNulty (D)
26 Hinchey (D)*
28 Slaughter (D)*
29 LaFalce (D)*

NORTH CAROLINA
1 Clayton (D)*
2 Etheridge (D)*
4 Price (D)*
8 Hefner (D)*
12 Watt (D)

NORTH DAKOTA
AL Pomeroy (D)*

OHIO
3 Hall (D)*
6 Strickland (D)*
9 Kaptur (D)
10 Kucinich (D)
11 Stokes (D)
13 Brown (D)*
14 Sawyer (D)*

OREGON
1 Furse (D)*
3 Blumenauer (D)
4 DeFazio (D)
5 Hooley (D)*

PENNSYLVANIA
1 Foglietta (D)*
2 Fattah (D)*
3 Borski (D)
4 Klink (D)*
6 Holden (D)*
11 Kanjorski (D)*
12 Murtha (D)*
14 Coyne (D)*
15 McHale (D)*
18 Doyle (D)*
20 Mascara (D)*

RHODE ISLAND
1 Kennedy (D)
2 Weygand (D)*

SOUTH CAROLINA
5 Spratt (D)*
6 Clyburn (D)*

TENNESSEE
8 Tanner (D)*
9 Ford (D)*

TEXAS
9 Lampson (D)*
10 Doggett (D)*
11 Edwards (D)*
15 Hinojosa (D)*
16 Reyes (D)*
17 Stenholm (D)*
18 Jackson-Lee (D)*
20 Gonzalez (D)***
24 Frost (D)*
25 Bentsen (D)*
27 Ortiz (D)*
28 Rodriguez (D)*
29 Green (D)*
30 Johnson, E.B. (D)*

VERMONT
AL Sanders (I)

VIRGINIA
3 Scott (D)
8 Moran (D)*
9 Boucher (D)*

WASHINGTON
7 McDermott (D)
9 Smith, A. (D)*

WEST VIRGINIA
1 Mollohan (D)*
2 Wise (D)*
3 Rahall (D)

WISCONSIN
3 Kind (D)*
4 Kleczka (D)*
5 Barrett (D)*
7 Obey (D)
8 Johnson (D)*

DID NOT VOTE

ILLINOIS
9 Yates (D)**

NEW MEXICO
1 Schiff (R)***

MASSACHUSETTS
5 Meehan (D)*

*Voted for the tax bill July 31.

**Voted against the tax bill July 31.

***Did not vote July 31.

■ Business Outlook

Economic Confidence Climbs Again

Business's confidence in the economy continued to rise, reaching its highest level since December 1994, in the U.S. Chamber of Commerce's latest member poll, conducted in August.

The Business Confidence Index, based on the Chamber's bimonthly Business Ballot poll, was 64.1 in August—up from 58.9 in June—and increased for the third consecutive period. (See the accompanying chart.) At its previous high, in December 1994, the index was 65.2.

The Business Confidence Index is based on responses to three economic-outlook questions asked in each Business Ballot poll.

The ballot also asks questions about other timely issues, such as legislation pending in Congress.

In the most recent poll, the percentage of respondents who said they expected the economy to improve over the next six months rose to 37.1 percent from 29.9 percent in June.

Those who believed that the economy would get worse in the next six months totaled 15 percent of the respondents, down from 19.3 percent in June. Nearly 48 percent said they expected no change in the economy.

Respondents were also more optimistic about the outlook for their own firms in August. More than half—50.6 percent, up from 43.7 percent in June—said they expected sales to increase over the next six months.

Just 10.9 percent in the August poll said they expected sales to drop. In June, 15.3 percent of respondents expected sales declines. Expecting no change were 38.5 percent, compared with 41 percent in June.

On the employment front, 30.7 percent said they expected to add jobs over the next six months, compared with 24.9 percent in June. A smaller percentage of firms, 8 percent in August compared with 10.6 percent in June, said they expected to cut jobs.

Respondents expecting no change in the size of their work forces totaled 61.3 percent, compared with 64.5 percent in June.

Be sure to respond to this month's Business Ballot in the plastic wrapper with The Business Advocate *and* Nation's Business.

■ Ballot Results

Good Workers Hard To Find, Say U.S. Chamber Members

More than three-quarters of the respondents to the latest Business Ballot poll of U.S. Chamber of Commerce members said they are having difficulty finding good workers.

The results of the August poll are not surprising, with the unemployment rate for the past four months having hovered around 5 percent, a figure considered by many economists to represent close to full employment.

Nearly one-fourth of the respondents said they are having no difficulty finding good workers.

Just over 48 percent of the respondents said that when hiring workers they are equally concerned about potential employees' work ethic and job skills.

Nearly 44 percent said they are more concerned with the work ethic of potential workers than with their skills, and 8.3 percent said they are more concerned with skills.

In an unrelated question, the overwhelming majority of respondents to the Chamber poll expressed reservations about the U.S. government's continued use of minority set-asides in awarding federal contracts.

Eighty-three percent said that the government should discontinue the practice of holding a certain percentage of federal work for bidding only by minority contractors. Just 8.4 percent said minority set-asides should be continued, and 8.6 percent were undecided.

Please respond to this month's Business Ballot questions on environmental and other matters.

■ Electricity

Deregulation Seminar Set

A seminar on improving business operations and preparing for the restructuring of the electric-utility industry is being sponsored jointly by Select Energy Inc., a retail energy-services subsidiary of Northeast Utilities, both of Berlin, Conn., and the U.S. Chamber of Commerce.

The seminar will be broadcast by satellite from 1 to 3 p.m. Eastern time Dec. 1 from the Chamber's television studios in Washington, D.C. Currently, it will be available for viewing in California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and Vermont.

For information on setting up a local broadcast downlink site or attending the program, call 1-800-835-4730.

Mandates

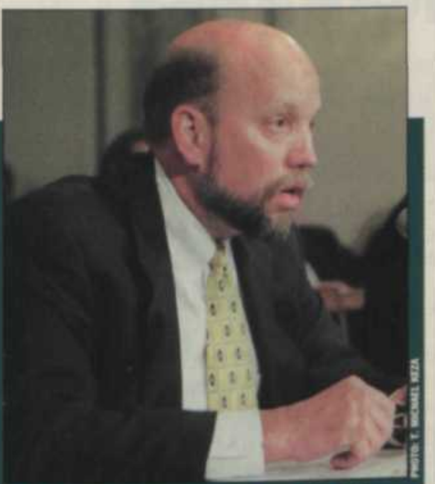


PHOTO: T. MICHAEL KEZA

Bob Spence, vice president and chief financial officer of Faultless Laundry Co. of Kansas City, Mo., testified recently before the House Small Business Committee on behalf of the U.S. Chamber about the impact of federal mandates on small firms.

Chamber Officers

Nominating Panel Elected

The committee that will nominate the 1998-99 officers of the U.S. Chamber of Commerce has been elected by the Chamber's board of directors.

Committee members include Michael S. Dell, chairman and CEO, Dell Computer Corp., Austin, Texas; Donald W. Dorr, owner, Buchen, Wise & Dorr, Hanover, Pa.; Paul E. Glaske, chairman, president, and CEO, Blue Bird Corp., Macon, Ga.; David R. Goode, chairman, president, and CEO, Norfolk Southern Corp., Norfolk, Va.; and Scott L. Holman, president, Bay Cast Inc., Bay City, Mich.

The panel also includes William C. Marcil, president and CEO, Forum Communications Co., Fargo, N.D.; Les McCraw, chairman and CEO, Fluor Corp., Irvine, Calif.; Dennis W. Sheehan, chairman, president, and CEO, AXIA Inc., Lombard, Ill.; William R. Toller, chairman and CEO, Titan Consultants Inc., Stamford, Conn.; and Lawrence J. Ybarrondo, chairman and founder, SCIENTECH, Inc., Idaho Falls, Idaho.

The committee will nominate directors to fill terms that begin in 1998, plus interim vacancies. U.S. Chamber members may submit their recommendations for candidates for directorships. Contact Mary Stranova at (202) 463-5335 to request a recommendation form. The deadline for recommendations is Nov. 3.

U.S. Chamber MemberBenefits

Here are some of the most important products, services, and programs offered by the U.S. Chamber.

State Chambers Detailed In Guide

A listing of the officers and staff specialists of state chambers of commerce and of business and industry associations is available from the U.S. Chamber's Office of Chamber of Commerce Relations.

The *'97 Staff Directory* lists each organization's address and telephone and fax numbers. It also includes a listing of the key management staff members of the U.S. Chamber and its regional offices and the corresponding telephone numbers.

To order the directory, which costs $15 per copy, call (202) 463-5580 or send a check payable to the U.S. Chamber of Commerce to Publications Fulfillment, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000. Ask for publication No. 0499. Quantity discounts are available.

Procurement Fair For Small Firms

A procurement-opportunity fair for small businesses—sponsored by the U.S. Chamber—will be held Oct. 29 from 10 a.m. to 3 p.m. at the Holiday Inn Northeast in Bensalem, Pa.

The Eastern Regional Procurement Opportunity Fair will offer small firms a chance to meet with major federal contractors and representatives of federal agencies that buy goods and services from the private sector and to learn how to identify and secure government contracts and subcontracts.

The price is $50 in advance and $75 the day of the fair. Checks should be made payable to the U.S. Chamber of Commerce/Philadelphia District and sent to 2416 Devon Lane, Drexel Hill, Pa. 19026.

For more information, call (610) 239-6222.

Chamber On-Line

The products and services offered by the Chamber can be viewed on the business federation's Internet home page at *www.uschamber.org.*

In a members-only section of the Chamber site, Chamber members can view in-depth information on the federation's policies and issues; review articles from *The Business Advocate*; respond to the Business Ballot poll; see information on their representative and senators in the Chamber's *1997 Congressional Handbook*; and view announcements of forthcoming Chamber events.

The members-only section's address is *www.uschamber.org/member/password.html.* Use your member identification number to reach this area of the site. (If you don't know your Chamber ID number, call 1-800-649-9719.)

Business Seminars

"The Rise of the Phoenix Organization" will be the topic of a satellite seminar sponsored by the U.S. Chamber's Quality Learning Services (QLS) Department on Oct. 14. The seminar will air from 1 to 3 p.m. Eastern time.

The presenter will be best-selling author James A. Belasco, a professor of management at San Diego State University.

The fall seminar series is being presented jointly by QLS and the American Society for Training and Development in Alexandria, Va. The latter organization is a leader in the field of professional workplace training and development.

Other seminars in the series, with the date, topic, and presenter of each, are:

Oct. 28—"Connective Leadership: Managing Diversity and Interdependence," Jean Lipman-Blumen, author of *The Connective Edge: Leading in an Interdependent World* and co-director and co-founder of the Institute for Advanced Studies in Leadership at the Peter F. Drucker Graduate Management Center in Claremont, Calif.

Nov. 12—"On the Fast Track: How to Recruit, Retain or Become a High-Potential Employee," William J. Morin, founder and chairman of WJM Associates, a management consulting firm in New York City.

Nov. 18—"Making Things Happen, Getting Things Done: Leading Teams Effectively," Peter Scholtes, founder of Scholtes Seminars and Consulting, a management consulting firm in Madison, Wis.

Dec. 9—"Overcoming the Urgency Addiction: Moving from Time Management to Life Leadership," Sean Covey, a vice president with the Covey Leadership Center, a leadership and management training company in Provo, Utah.

For more information on the series, including hosting a downlink site for a seminar, call QLS at 1-800-835-4730 or (202) 463-5940.

Retirement Plans Available

The U.S. Chamber of Commerce and Fidelity Investments are offering a package of retirement plans and services that are designed to be accessible, affordable, and convenient for Chamber members.

The products are intended primarily for businesses employing fewer than 100 workers. They include 401(k), Keogh, SEP-IRA, and SIMPLE—Savings Incentive Match Plan for Employees—plans.

Fidelity provides investment-management and record-keeping services as well as materials for employers to use in communicating with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).

Fidelity Investments®

1998 Blue Chip Enterprise Program

Applications for the 1998 Blue Chip Enterprise Initiative, which recognizes small businesses that have faced and overcome adversity, are being accepted.

The annual program is co-sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber, *Nation's Business*, and "First Business," the half-hour morning television news program presented by MassMutual and the Chamber.

To obtain an application, call 1-800-FOR-BCEI (1-800-367-2234), contact a MassMutual agent, or send an electronic-mail request to *bluechip@nationsbusiness.org.* The application also appeared in the August issue of *Nation's Business.*

Airborne Express Discounts Available

Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can save up to 33 percent on the cost of overnight shipments to nearly anywhere in the United States and to the more than 200 other countries served by Airborne.

To obtain the discounted service, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.